July 1, 2019 (/posts/2019/6/market-commentary-july-2019)

Market Commentary - July 2019 (/posts/2019/6/market-commentary-july-2019)

Ara Abrahamian (/?author=54cbcf67e4b047586 95f03e1)

Rates Dropping

It appears the race to zero percent interest rates is back on. Currently, over $12 trillion (https://www.ft.com/content/cf39a9a4-8ea2-11e9-

Curating our favorite commentary from around the financial planning and investing world.

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a24d-b42fb41eca37) bonds are trading with negative yields! France, Germany, Japan & Switzerland have either zero or negative yielding 10 year government bonds. That's right, if you hold these until maturity, you are guaranteed to break even or even lose money! This total is only likely to increase after the ECB recently indicated it's unlikely to increase interest rates before mid 2020 and stands ready to add more stimulus. While its helped push asset prices higher, the impact on economic growth has been questionable at best.

In the U.S., expectations have shifted drastically. Nine months ago the Fed was signaling for two to three interest rate hikes in 2019. Now expectations are for two interest rate cuts. In addition, President Trump has been continually applying pressure on the Fed to follow the rest of the globe with cutting interest rates. While lower interest rates reduce the cost of borrowing and can make goods more affordable for individuals and corporations, it also tends to fuels speculation and lead to "bad" investments being made. This can lead to the formation of asset bubbles if interest rates are kept low for too long. If the Fed were to move forward and cut rates, their options are limited on what they can do when the next downturn hits. While a prolonged trade war with China has emerged, the sharp u-turn from the Federal Reserve has left many wondering if a global recession is on the horizon or if they merely caved to political pressure.

In June, we witnessed a slow down in job creation

(75,000) and a continued unresolved trade war with China. Despite this, global markets are on pace for their third best monthly performance in over 3 years. How? In short, a majority of this negative data has been shrugged off as the hopes for interest rate cuts and additional monetary stimulus have increased. This is not to say all economic data has been disappointing as retail sales have ticked up. The question is how much additional economic growth would arise from a 0.25% to 0.5% interest rate cut? Would it truly spur economic growth or merely help push stock and bond prices higher? While asset prices have increased tremendously in 2019, central banks continue to pile up record levels of debt and Eurozone GDP is lower today vs. 2015 and U.S. GDP is not much higher and that includes the corporate tax cuts in 2018.

The growing concern is the global system has become too dependent on low interest rates which have had a diminishing impact on spurring economic growth. The U.S. is in a tricky spot as their economic growth is stronger than most but at the same time a majority of developed countries continue to cut or maintain low interest rates. The Fed must either follow suit or risk having the US dollar appreciate which could have a negative impact on growth. One thing is clear, the longer interest rates remain this low, the larger the potential risk down the line. If inflation were to unexpectedly spike, things would get tricky as central banks would be forced to raise rates to combat inflation and global markets would surely be spooked. As worrisome as this can be, trying to decipher when a prolonged downturn will commence and for how long has been proven to be near impossible. In addition, right now both good and bad economic data is being cheered and boosting stock and bonds values. As mentioned in my market commentary last month (https://www.snifftested.com/posts/2019/5/june-market-commentary), avoiding making rash investment decisions based on headlines is always recommended and those who stayed the course were rewarded handsomely in June.

June 14, 2019 (/posts/2019/6/sniffed-links-less-privacy)

Sniffed Links - Less Privacy (/posts/2019/6/sniffed-links-less-privacy)

Matt Brock (/?author=5137b75ae4b09e6afa7e69e7)

Privacy issues in tech are not going away. Neither are their users. Governments can fine and regulate Facebook all they want. For a large amount of users Facebook is their internet. They don't search the

Facebook is their internet. They don't search the web themselves to learn things. They go to Facebook. They are too big to fail.

I don't know what has to happen for users to leave. By and large, users don't care.

Facebook Lawyer Says Users 'Have No Expectation Of Privacy' (https://www.dailydot.com/debug/facebook-lawyer-no-expectation-of-privacy/)

Facebook Worries Emails Could Show Zuckerberg Knew of Questionable Privacy Practices (https://www.wsj.com/articles/facebook-worries-emails-could-show-zuckerberg-knew-of-questionable-privacy-practices-11560353829)

Apple promises privacy, but iPhone apps share your data with trackers, ad companies and research firms (https://www.washingtonpost.com/technology/2019/05/28/its-middle-night-do-you-know-who-your-iphone-is-talking/)

June 3, 2019 (/posts/2019/5/june-market-commentary)

Market Commentary - June 2019 (/posts/2019/5/june-

(/posts/2019/6/june-market-commentary)

Ara Abrahamian (/?author=54cbcf67e4b047586 95f03e1)

S&P Continued Dominance

The escalating trade war with China has gone from a nuisance to a big pain as things worsened over the past month. Still, it has had minimal impact on the performance of the S&P 500. Sure, it has created some volatility but not as much as one may think. Other markets have not faired as well. The S&P 500 is only ~3% off all time highs as of this writing. There will always be periods of time where one asset class outperforms the others.

Why the discrepancy between the S&P 500 and other indices? Here are my thoughts.

- Hope - Most are hopeful a deal will get done and the damage will be contained. Hope is not a strategy but markets seem to give the benefit in these types of situations and assume cooler heads will prevail. The issue is both sides seem to have dug in their heels and are blaming one another for the recent breakdown in talks.
- Interest Rates - Earlier this year, the Federal

Reserve signaled it would hold back on rate hikes for the foreseeable future which helped put a temporary floor on markets. The thought is if the trade war continues, the Federal Reserve will cut interest rates and doing so would make bonds and equities more attractive than the alternative (cash, money markets CD's). While this is not always the case, the past five years has pretty much played out this way. The concern is April's slow down came before the latest round of tariffs and if the trade war escalates, additional stimulus and lowering of interest rates will have a minimal impact as the global economy could slip into a recession.

- Buybacks - This has been mentioned in several of my market commentaries but its importance can't go unnoticed. The tax cut and jobs act significantly benefited corporations who in turn used a majority of the tax savings to buy back shares and/or boost dividends (https://www.yardeni.com/pub/buybackdiv.pdf) . The numbers are staggering and 2019 is shaping up to be another record year. To put things in perspective, Apple recently announced they would be repurchasing an additional $75 Billion of its own shares. This is in addition to the $100 billion buyback announced in May of 2018. This sort of thing can be part of the reason the S&P 500 seems to bounce back so quickly and continues to outperform other equity markets. While buybacks will continue,

> the year over year rate at which they are increasing is likely to slow over the coming years which has some worried that the S&P 500 will pay the consequence once this wears off. That remains to be seen but there is no question that buybacks have helped boost US large cap stock prices.

The immediate impact is always hard to identify as it takes time to see the net effect. Some estimates suggest a 0.5% hit on China's GDP and a 0.3% hit to US GDP from the current tariffs in place. While not devastating, this assumes the trade war does not escalate. If it does, the estimates are closer to a 1-2% hit on GDP which would certainly wreak havoc on global markets. It's important to remember the Federal Reserve has less ammunition in its arsenal to fight the next economic down turn as we are in the late stages of this economic cycle and interest rates by a historic measure are still very low. If inflation were to spike, cutting interest rates would backfire as the incentive to lend would diminish as the interest earned would be less than inflation.

While everything above can seem scary, it is not a reason to take action because we could wake up tomorrow with a trade agreement. What an investor should be doing is reviewing their portfolio risk to make sure they are comfortable as this trade war could become another minor bump in the road or the start of the next significant market downturn. No one knows the answer and attempting to guess isn't recommended, so take the time to review your isn't recommended, so take the time to review your portfolio risk and make sure it is at a level that will allow you to sleep at night.

May 31, 2019 (/posts/2019/5/sniffed-links-new)

Sniffed Links - New (/posts/2019/5/sniffed-links-new)

Matt Brock (/?author=5137b75ae4b09e6afa7e69e7)

An extra course of links this week. I'm avoiding all the trade war stuff. I'm over it. I'm tired of hearing about it. Let's just move on.

Don't Make These Seven Car Insurance Mistakes (https://www.thesimpledollar.com/insurance/blog/dont-make-these-car-insurance-mistakes/)

America's newest stock exchange wants to fix one of capitalism's fundamental challenges (https://www.vox.com/recode/2019/5/22/18629621/long-term-stock-exchange-explainer-capitalism-quarterly-earnings)

Listen to TurboTax Lie to Get Out of Refunding Overcharged Customers (https://www.propublica.org/article/listen-to-turbotax-lie-to-get-out-of-refunding-overcharged-customers)

The Hulu/Disney/Comcast divorce, explained (https://www.vox.com/2019/5/14/18623063/hulu-disney-comcast-fox-netflix-att-office-friends-streaming)

Gen X Is a Mess (https://www.nytimes.com/interactive/2019/05/14/style/generation-xers.html)

May 17, 2019 (/posts/2019/5/sniffed-links-comparisons)

Sniffed Links - Comparisons (/posts/2019/5/sniffed-links-comparisons)

Matt Brock (/?author=5137b75ae4b09e6afa7e69e7)

Trade War, threats made, market declines, blah blah blah. A lot was written this week. A lot of what was written was also written a few months back. And a few months before that. On and on we go.

Clients and prospects seem to like to know where they stand in relation to “others”. Below is Fidelity’s most recent retirement study. One stat of note is that average 401k balances have more than doubled since 2009. This is great news. The bad news? The average account is about $100k. Still, that's WAY better than the 2009 number of about $50k.

Fidelity Retirement Study (https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/press-release/quarterly-retirement-trends-050919.pdf)

Bond-Proxies Peaking Our Interest (https://allstarcharts.com/bond-proxies-peaking-interest/)

May 3, 2019 (/posts/2019/5/sniffed-links-bounce)

Sniffed Links - Bounce (/posts/2019/5/sniffed-links-bounce)

Matt Brock (/?author=5137b75ae4b09e6afa7e69e7)

We received some surprising economic news last week as the first quarter was stronger than expected. I think this had a lot to do with the market bounce back. The economy followed with a bounce back of its own. Of course, like most data over the past 10 years there are different ways to view it. Some are positive and some are negative. Economists Assemble!

Why US economic growth isn't as strong as it looks (https://www.cnn.com/2019/05/01/perspectives/us-gdp-first-quarter-economy/index.html)

15 Months of Fresh Hell Inside Facebook (https://www.wired.com/story/facebook-mark-zuckerberg-15-months-of-fresh-hell/)

Mapping the US Gastronomic Borders (https://pudding.cool/2018/02/restaurants/)

Digital Minimalism: How to Simplify Your Online Life (https://medium.com/swlh/digital-minimalism-how-to-simplify-your-online-life-76b54838a877)

May 1, 2019 (/posts/2019/4/market-commentary-may-2019)

Market Commentary - May 2019 (/posts/2019/4/market-commentary-may-2019)

Ara Abrahamian (/?author=54cbcf67e4b047586595f03e1)

What About Bonds

While much of the spotlight has been on the breathtaking rally in equities, what has transpired in the bond market might be more impressive. Both are off to their best starts in a decade. The rally in equity markets has probably benefited from the massive spike in stock buybacks. US corporations were large beneficiaries from the tax cut and jobs act and on pace to buy back more shares than the record breaking amount in 2018. Bonds have benefited from the Federal Reserve signaling it would hold back on rate hikes for the foreseeable future.

Of course this is all in stark contrast to the way 2018 ended. Similarly most of the headlines in the fourth quarter focused equities and their sharp decline. But, several bond classes were in the midst of one of the largest quarterly declines since 2008!

It is likely the Federal Reserve and central banks helped put a floor on markets in the short term. The underlying issues of a slowing global economy coupled with rising deficits still exists and needs to be addressed in the coming years. Currently global debt sits at $244 trillion (https://www.bloomberg.com/news/articles/2019-01-15/global-debt-of-244-trillion-nears-record-despite-faster-growth), which is three times the size despite faster growth), which is three times the size of the global economy. Estimates are for this to increase over the next year. If rates are left low, corporations and governments will continue to borrow and the debt pile will swell. But, if interest rates rise, there could be difficulty servicing the debt which could lead the global economy to come to a screeching halt. Again, however, it is important to point out that economies and markets often go in different directions so these sort of concerns are more for tracking and watching and less for taking action.

April 19, 2019 (/posts/2019/4/sniffed-links-filtering)

Sniffed Links - Filtering (/posts/2019/4/sniffed-links-filtering)

Matt Brock (/?author=5137b75ae4b09e6afa7e69e7)

Sticking to my discussion from a few weeks back (https://snifftested.squarespace.com/posts/2019/3/sniffed-links-reading), I want to further explain how I consume “news”. I think clients probably assume that as financial planners and investment advisors we stay on top of “breaking news”. This is somewhat true. We stay on top of the headlines so we know what clients may be reading or hearing. But, a financial advisor who reads “breaking news” is likely ineffective in terms of their ability to stick with a plan. Breaking news can make you feel like you have to do something as a reaction to everything you read. The way we invest (and the way we think every long term investor should invest) doesn’t lend itself to needing to know breaking news related to the economy or markets. Sure, we know what’s going on but we don’t sit around waiting to react. Instead, we study long term trends, philosophies, and strategies. These are more important to keep up with.

Summary of Upcoming TSP Withdrawal Changes (https://www.fedweek.com/tsp/summary-of-upcoming-tsp-withdrawal-changes/)

The Day the Dinosaurs Died (https://www.newyorker.com/magazine/2019/04/08/the-day-the-dinosaurs-died)

Active Fund Managers Get Blown Up Again After Hot Start to 2019

Hot Start to 2019
(https://www.bloomberg.com/news/articles/2019-04-03/active-fund-managers-get-blown-up-again-after-hot-start-to-2019)

The $800,000 Card
(http://tonyisola.com/2019/04/the-800000-card/)

The best apps to block robocalls on cellphones
(https://www.washingtonpost.com/technology/2019/04/04/die-robocalls-die-how-to-guide-stop-spammers-exact-revenge/)

April 1, 2019 (/posts/2019/3/market-commentary-april-2019)

Market Commentary - April 2019 (/posts/2019/3/market-commentary-april-2019)

Ara Abrahamian (/?author=54cbcf67e4b04758695f03e1)

Stock Picking

This month's commentary is a continuation from my post in February (https://www.snifftested.com/posts/2019/1/market-commentary-february-2019). Every so often you may hear people in the industry talk about how it's a "stock pickers market" or about a firm that just launched a fund based on its "best investment ideas". We always ask ourselves, "why are now and based on what data?" Stock picking is not what it once was. The rapidly free flow of all information has turned stock picking from a skill to a game of risk and gambling. The reality is many stocks underperform the broad market. Since 1973, only 22% of rolling 10 year periods were the number of stocks that outperformed the S&P 500 at 50% or higher. (https://awealthofcommonsense.com/2019/03/how-often-is-it-a-stock-pickers-market/) Unless someone is lucky enough to consistently picks winners their performance will lag the benchmark. Not to mentioned likelyhigher total fees.

Let's look at some other data and statistics provided by Vanguard (https://personal.vanguard.com/pdf/ISGITO.pdf) & J.P. Morgan (https://www.chase.com/content/dam/privatebanking/en/mobile/documents/eotm/eotm_2014_09_02_agonyescstasy.pdf).

- Since 1980, ~40% of all stocks have suffered a permanent 70%+ decline from their peak value in the Russell 3000 Index. This percentage spikes when looking at technology, biotech & metals/mining stocks.
- Since 1980, 320+ companies have been removed from the S&P 500.
- Two-thirds of all stocks underperformed vs. the Russell 3000 Index, and for 40% of all stocks, their absolute returns were negative.
- From 1987 to 2017, ~47% of stocks were unprofitable investments and ~30% lost more than half their value. On the other hand, roughly 7% of stocks had cumulative returns over 1,000%.

Pretty eye opening stuff which makes me wonder why so many try to "beat" the market when the odds aren't in your favor from a risk/reward basis. There will always be a small percentage who outperform, but that is the exception, not the norm. If you're picking stocks and don't own the 7%, good luck keeping up with the index. Also, if you miss on the 7%, the tendency is to attempt to close the gap by chasing returns/performance which rarely works.

I get it, many think they can find the "next" Apple or Amazon, and a few will. Even if you were lucky enough to invest in both early on, each have experienced multiple 50% to 75% declines and sticking it through is extremely difficult especially when it's a large percentage of ones portfolio. Not to mention for every Apple and Amazon there have been countless stocks that have wiped out shareholders. We consistently preach the key to investing is managing risk. There are few who can handle multiple 50%+ corrections without reacting. The reality is most investors make portfolio changes based on emotions (greed or fear) and not based on fundamentals. While I understand why this happens, the key is avoiding it.

March 22, 2019 (/posts/2019/3/sniffed-links-reading)

Sniffed Links - Reading (/posts/2019/3/sniffed-links-reading)

Matt Brock (/?author=5137b75ae4b09e6afa7e69e7)

My consumption of financial news is "old school". I get most of it from RSS feeds and some from trusted sources Twitter. To call RSS old school is laughable to those who still read newspapers but considering most people get their news from Facebook or LinkedIn, I am a dinosaur. In the financial industry consuming information is a skill and a process that takes time to develop. There is so much out there and unless you know who to trust and where to go you can get completely lost. That's why we try to only share what we think is worthy of reading. The best stuff out there are from people who are writing content as a way for them to organize their own thoughts and ideas. The worst stuff out there is from people who are trying to get clicks or to sell newsletter subscriptions. It's a shame, really.

Recessions: It's Been a While (http://www.collaborativefund.com/blog/its-been-a-while/)

The Twenty Craziest Investing Facts Ever (https://theirrelevantinvestor.com/2019/03/13/the-twenty-craziest-investing-facts-ever/)

Former Fed Chair Janet Yellen: Far from retired, nowhere near done (https://www.marketplace.org/2019/02/25/economy/janet-yellen)

March 8, 2019 (/posts/2019/3/sniffed-links-privacy-piracy)

Sniffed Links - Privacy Piracy (/posts/2019/3/sniffed-links-privacy-piracy)

Matt Brock (/?author=5137b75ae4b09e6afa7e69e7)

With technology being such a large part of markets it's important to keep an eye on the trends in the sector. One that we have mentioned many times is privacy. Just when we thought Facebook couldn't get more scummy new broke that the number you use for two factor authentication "security" settings is being used in ridiculous ways. What's scary is I bet Facebook isn't the only one doing this. It's disgusting. They keep promising to get better but they are too big to get better

Now Facebook is allowing anyone to look you up using your security phone number (https://www.fastcompany.com/90314763/now-facebook-is-allowing-anyone-to-look-you-up-using-your-security-phone-number)

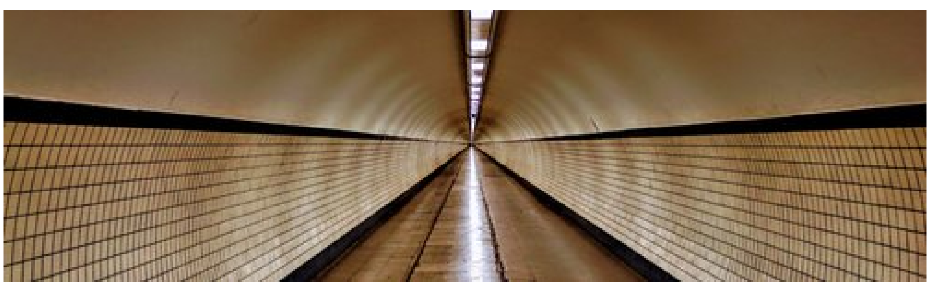
Your friends' social media posts are making you spend more money, researchers say

(https://www.washingtonpost.com/us-policy/2019/02/19/your-friends-social-media-posts-are-making-you-spend-more-money-researchers-say/?utm_term=.9bf48594fed9&noredirect=on)

March 1, 2019 (/posts/2019/3/sniffed-links-cycle)

Sniffed Links - Cycle (/posts/2019/3/sniffed-links-cycle)

Matt Brock (/?author=5137b75ae4b09e6afa7e69e7)



People are wondering why the market is soaring despite economic headwinds and weak earnings. The simple answer is that this is more common than you may think. Ara will discuss this more in his market commentary. One think economists seem to be able to agree on is that we are nearing the end of a cycle. Of course, they can't agree on how long the "end" of a cycle can last.

The Heat Grows on Indexing

The Heat Grows on Indexing
(https://www.morningstar.com/articles/914368/the-heat-grows-on-indexing.html)

Spending Happily
(https://humbledollar.com/2019/01/spending-happily/)

Climate Change Could Hit Norwegian, Merck, and These Companies Hardest
(https://www.barrons.com/articles/climate-change-could-hit-norwegian-merck-and-these-companies-hardest-51548455187)

March 1, 2019 (/posts/2019/3/market-commentary-march-2019)

Market Commentary - March 2019 (/posts/2019/3/market-commentary-march-2019)

Ara Abrahamian (/?author=54cbcf67e4b04758695f03e1)

After experiencing one of the worst 10 week declines this decade, markets have followed up with one of the best two months to start a year in history. Yet another example of why marker timers have been crushed so many times since 2008. The average investor is better off neverlistening to market headlines and traditional news outlets. There are always a few touted "geniuses" who call a certain market correction but over the long run a majority of these market prognosticators are wrong far more often than right. I'm not picking on them as they are being paid to make predictions. No wants to write a story about investment managers who don't take wild guesses as to the next downturn.

I will be the first to acknowledge that the global economy is facing several headwinds and the economic data isn't getting any better. In early January we received earnings warnings ranging from Apple, Intel, Constellation Brands & FedEx to name a few. But investors who sold because of this have watched stock markets rallyfor six consecutive weeks. And volatility has all but ceased for the time being. Sometimes the only thing that makes sense about markets is the fact that they don't always make sense.

How could markets rally nearly double digits on the back of weaker earnings? Some are calling this quarter an "earnings recession" yet the market keeps climbing. The fact is this is not uncommon. Surprisingly, since the 1930s a majority of times when earnings were down, stocks actually ended the year higher. (https://awealthofcommonsense.com/2019/02/the-dreaded-earnings-recession/)This is a head scratcher for many but the truth is the markets and the economy don't always go hand in hand. Markets are shaped by many variables and corporate earnings growth is just one. Data points such as inflation, wages and interest rates play an important role along with politics and central bank intervention. Relying on one as the basis of an investment decision is a fool's game. History seems to back this up.As Ben Carlson points out in his great piece (https://awealthofcommonsense.com/2019/02/the-dreaded-earnings-recession/), the 1930s saw earnings growth of -42% while the S&P 500 was nearly flat. The 1950s saw modest earnings growth of 46% but gains in the S&P 500 of nearly 500%! In fact, in 2018 earnings rose by 19.2% yetthe S&P 500 FELLby 4.4%. (https://fsinvestments.com/perspectives/articles/equities-sail-into-late-cycle-headwinds?mkt_tok=eyJpIjoiTkRZNFkyTmxaR1F5WTJRMCIsInQiOiJxXC8zU242YlA3ckVGTFNrY1NVMDRxN3RPZUdwODM4WkR6WXU2YkpCaVpIMXo4QTMyRW9uWTZEaXNwcURlMVBWYUs3RFwvWlNFcVdiVFV6XC9nb2lGMmRTenB5Y2ZsYzBDOE1TYWFKNWd6Y0FpVEpKTlF6bnpyZTFSajNCUlE2VmFlUTNUbXMzRTk1c0RXa2xmTzlNTVZBWUE9PSJ9)

How?

Trade wars, rising interest rates and a looming government shut down spooked many investors and triggered a massive sell off. Two months later, the sell off has almost been wiped out as the Federal Reserve backed down from their interest rate hike projections of threeor fourrate hikes in 2019 to one or zero! This along with what appears to be some progress in the U.S./China trade talks sparked a breathtaking rally.

Too often investors want to find a silver lining for the basis of why they believe markets should react a certain way when in reality no one knows with any certainty. Investing isn't easy and when emotions get involved, it becomes even more difficult. Market corrections, bear markets andcrashes are what makes markets work. Without risk of going down there would be no chance of markets going up. While never enjoyable, an investor should accept the fact that over their lifetime they will experience multiple of these and the key is being in a risk adjusted portfolio that will allow you to sleep at night and avoid the cardinal mistakes of selling out of a plan that is working.

February 15, 2019 (/posts/2019/2/sniffed-links-political)

Sniffed Links - Political

(/posts/2019/2/sniffed-links-political)

Matt Brock (/?author=5137b75ae4b09e6afa7e69e7)

I haven't shared links in a couple of weeks and I may be doing so more sporadically because its very hard to find anything worth reading that isn't political at the moment. Also, the market seems back to the theme it has followed most of the decade; blind resiliency. Earnings season hasn't been great. Consumer spending is showing possible signs of slowing. Nothing, however, is able to push the market from its current trajectory. Look, we are not complaining about near double digit returns in 6 weeks but we also have to be realistic.

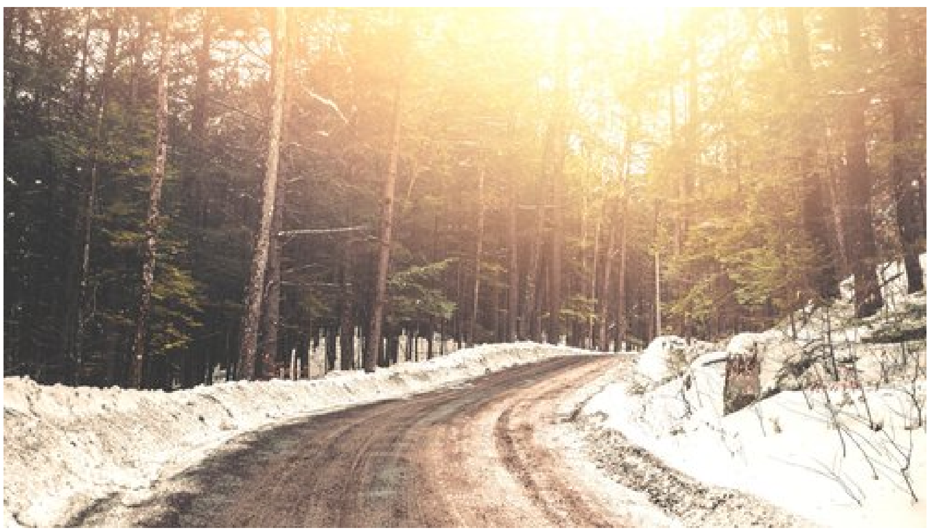
I'm ready for Spring.

This Is Your Brain Off Facebook - The New York Times (https://www.nytimes.com/2019/01/30/health/facebook-psychology-health.html)

February 1, 2019 (/posts/2019/2/sniffed-links-recovery)

Sniffed Links - Recovery (/posts/2019/2/sniffed-links-recovery)

Matt Brock (/?author=5137b75ae4b09e6afa7e69e7)



I don't know that we have seen the bottom of this bear market yet but January was some recovery. It was the best January in over a quarter century. We certainly aren't complaining but we also know **we aren't out of the woods yet**. Enjoy this week's posts.

Market Commentary - February 2019 (https://www.snifftested.com/posts/2019/1/market-commentary-february-2019)

Wines from Virginia are finally ready to drink (https://robbreport.com/food-drink/wine/wines-

(https://robbreport.com/food-drink/wine/wines-from-virginia-are-finally-ready-to-drink-2838232/)

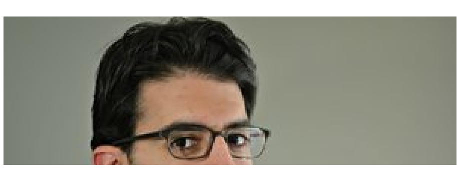
How To Invest Your Down Payment If You're Planning To Buy A House (https://www.financialsamurai.com/how-to-invest-your-down-payment-if-youre-planning-to-buy-a-house/)

Avoiding Buyer's Remorse When Purchasing An Expensive Luxury Vehicle (https://www.financialsamurai.com/how-to-avoid-buyers-remorse-when-purchasing-a-luxury-vehicle/)

February 1, 2019 (/posts/2019/1/market-commentary-february-2019)

Market Commentary - February 2019 (/posts/2019/1/market-commentary-february-2019)

Ara Abrahamian (/?author=54cbcf67e4b047586995f03e1)



Index Funds and

Risk

There have been a few things written over the last few weeks about index funds and a potential risk they could pose to markets and on capitalism. These arguments are not against index funds themselves but rather against the rising culture of indexing. Index funds have become an important part of a well rounded portfolio and they now make up about 17% of the total U.S. stock market value compared to 4.5% in 2002. (http://money.com/money/5468239/jack-bogle-index-funds-problem/) We have mentioned in meetings with clients that this percentage is important to keep an eye on because there are some valid concerns and risks associated if this percentage increases to a much higher amount. Even then, however, I would argue the benefit to the individual investor would far outweigh the various threats.

Since index funds are passive in nature, this can lead to a handful of stocks representing a large percentage of an index. Some argue this could pose a threat to markets because if massive selling starts in a few big stocks, it can quickly accelerate.
An actively managed fund can limit exposure to any individual security and minimize potential volatility. While there is some truth to this, the larger threat in my opinion stems from active managers trying to "time" markets and chase performance. During the financial crisis, many fund managers were constantly

buying shares of Lehman Brothers & Bear Sterns on the way down with hopes their funds would out pace the indices once the stocks recovered. Well, that never happened and many were severely punished with poor returns. The same thing occurred during the 2011 European crisis with European bank stocks.

Another argument against index funds is that they lead to asset mis-pricing as money is not flowing to the companies that will make best use of it. Again,there is some truth to this but if fund managers were able to consistently identify the "best" companies, they would be outperforming their respective index, not trailing, and index funds wouldn't be gaining as much traction as they have.

In my opinion, the argument that holds the most weight has to do with corporate governance. The late Jack Bogle (the "father" of indexing) himself, expressed his concerns over this very thing. A greater amount of shareholder voting power is in the hands of a few companies who are large players in index investing. Vanguard, State Street and Blackrock to name a few. This can lead to conflicts of interest when so much voting power is in the hands of a few. Generally it is better to have voting power spread out as that tends to lead to more of an even playing field for all parties involved.

The positives that index funds bring to the average investor are many. For one they tend to be a more tax efficient and cost effective way to invest and the numbers seem to back that up. According to the S&P Dow Jones Indices SPIVA study, over 86 percent of all actively managed U.S. stock funds have underperformed their index during the last 10 years (http://www.lowellsun.com/business/ci_32157671/index-vs-actively-managed-funds-theres-big-difference). Even more, 83 percent of actively managed government bond funds underperformed their index. These percentages are staggering. It is nearly impossible to know which actively managed funds will beat their respective index in any given year. Actively managed funds almost always have higher internal expense ratios which is another hurdle they must overcome to match the performance of their respective index.

The bottom line is there is a place for both active and passive investing. Investing always takes on a multitude of risks and those risks can vary but one thing that can be achieved regardless is diversification. Like most issues that relate to the market, I think this will work itself out over time but the benefits from index funds to investors can't be denied and their rise has lead to billions of dollars saved by investors.

January 18, 2019 (/posts/2019/1/sniffed-links-john-bogle)

bogle)

Sniffed Links - John Bogle (/posts/2019/1/sniffed-links-john-bogle)

Matt Brock (/?author=5137b75ae4b09e6afa7e69e7)

This week the finance world lost John Bogle. He was the founder of Vanguard and the “creator” of what we now call index investing. He was the most important figure in investing. Most everyday investors have never heard of John Bogle yet his impact is felt by almost every investor. Wall Street told him an index fund wouldn’t work. Wall Street told him low cost investing couldn’t work. He proved Wall Street wrong and all these years later every traditional mutual fund company is rushing to compete with index funds and ETFs. The amount of money he indirectly saved investors is well into the billions (and maybe more).

John C. Bogle, Founder of Vanguard Group, Dies at 89 - WSJ (https://www.wsj.com/articles/john-c-bogle-founder-of-vanguard-group-dies-11547677745?mod=mhp)

Warren Buffett Remembers Vanguard Founder John Bogle as a Wall Street Revolutionary (http://fortune.com/2019/01/17/warren-buffett-remembers-john-bogle/)

January 11, 2019 (/posts/2019/1/sniffed-links-over)

Sniffed Links - Over (/posts/2019/1/sniffed-links-over)

Matt Brock (/?author=5137b75ae4b09e6afa7e69e7)

Is the Bear market already over? Have we seen the worst? We have to assume that it's NOT over but when you are investing properly it doesn't really matter. Our portfolios are positioned the way we want them if the market comes back up or if it goes further down. Investing using facts and evidence means you don't have to make guesses about getting backing into the markets because it means you never got out in the first place.

Are you in the middle class? (https://ritholtz.com/2019/01/are-you-in-the-middle-class/)

Logging In to Your Bank Account Is Now a $3 Billion Business (https://advisorhub.com/logging-in-to-your-bank-account-is-now-a-3-billion-business/)

January 4, 2019 (/posts/2019/1/sniffed-links-well-then)

Sniffed Links - Well Then (/posts/2019/1/sniffed-links-well-then)

Matt Brock (/?author=5137b75ae4b09e6afa7e69e7)

Happy New Year and welcome back to volatility. The market swings continue to be highly volatile so we don't really see and "end" to it any time soon. Trade war, government shutdown, walls, Apple Stock. The list of concerns go on and on but in the face of these core economic numbers look decent. The big concern this week, however, was Apple and CEO Tim Cook admitting that the trade war with China is really hurting. It is likely we will hear more reports like this from other global companies.

Buckle up folks. Nothing is going to change any time soon.

No links this week.

January 2, 2019 (/posts/2019/1/market-commentary-january-2019)

Market Commentary -

Market Commentary January 2019 (/posts/2019/1/market-commentary-january-2019)

Ara Abrahamian (/?author=54cbcf67e4b04758695f03e1)

With 2018 in the books, it's good to take a step back and analyze what transpired. It's safe to say 2018 was one of the more challenging years since the "great recession". While it provided less volatility compared to 2008, navigating equity and bond markets proved challenging because of rising interest rates (less accommodative federal reserve), a looming trade war and the possibility of a slowing global economy.

As discussed in our October market commentary (https://www.snifftested.com/posts/2018/9/market-commentary-october-2018), diversification has been a drag on portfolio returns as a majority of bond and equity indices underperformed the S&P 500 since March. Since 1928, there have been three occasions (https://awealthofcommonsense.com/2017/04/what-could-cause-stocks-bonds-to-fall-together/) where the S&P 500 & 10 year U.S. treasury posted negative returns in the same year. Baring a monumental recovery in the last few trading days of the year, this will be the fourth. This is quite the contrast from what we witnessed in 2017 where equity markets experienced some of the lowest levels of volatility in history.

Amongst the volatility, there were several bright spots in the 4th quarter. Diversification has shown signs of life as emerging market equities and some European markets have outperformed the U.S. A majority of bond sectors posted their best quarterly returns for the year. It's important to remember that it is not only equities that experience a wide variance of returns; this applies to bonds as well. Each bond sector carries its own risk ranging from credit, duration and entity exposure that significantly impacts their respective annual returns. Years such as 2008, 2011 and 2013 illustrate the large variance of bond returns. Many bonds show their true value in periods of stock market volatility. It takes dedication and discipline to ride out an increase in volatility because it can sometimes take years to see meaningful benefits. When analyzing a portfolio, it is important to look at the total and not focus on an individual holding as a properly diversified portfolio should always have investment with varying degrees of expected return to help mitigate volatility.

Markets never provide an all-clear signal, so investors must understand that volatility is a normal part of investing. We expect much of the same for 2019. This does not imply that markets will end lower, but investors should prepare themselves mentally as many issues are yet to be resolved and volatility tends to increase in periods of uncertainty.

Equity markets are a great source of wealth creation, but that wealth can be significantly reduced if one is not diversified and disciplined.

Wishing you a Happy and Healthy New Year!

Older Posts (/?offset=1546449534259)

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Powered by coffee, wine and bourbon.