# January 2018 Financial Planning Notes - Client Newsletter

*"Too many people spend money they haven't earned to buy things they don't want to impress people that they don't like."*

***Will Rogers***

In This Issue:



## Stupid Fitness Trends

What people usually say when they first see me is "Man, you spend way too much time in the gym." What happens next is I wake up.

While it is true my muscle mass at age 54 isn't quite what it was in my 20's and 30's, I have spent a lot of time at various fitness facilities here in South Florida, starting with the Miami Lakes Athletic Club (now Shula's Athletic Club) in 1986. That was so long ago, cows grazed in an open field next to the gym. Over the years I've seen many fitness trends come, and most of them go. (The cows went, too). Some of those trends were silly. Others were hilarious. Here are some of my favorites:

### Slide Boards

There's always been an "aerobics" room at the gym, and back in the day, they had aerobics classes in there. And only aerobics classes. But how many industries are smart enough to leave a good idea alone? Gyms started looking for new ways to attract members and started doing not-exactly-aerobics classes in the aerobics room - from kickboxing to butt blasting to Pilates to Roomba to Zumba. Yeah, one of those is a little robot vacuum cleaner. Just wanted to see if you're paying attention.

One of my favorite silly aerobic room activities (for mocking derision value) was slide board class.

Picture: These women each weighed 300 pounds before buying their $460 obsidian slide board, the manufacturer hopes you believe

Meant to simulate speed skating, cross-country skiing or a clumsy bullfighter, I'm not sure which, the slide board was a slippery 6-foot wide surface you slid across in your stocking feet. And they actually made classes for it. With instructors.

It took gym members 15 minutes (give or take) to flush out this scam – there is no known benefit to this workout compared to just regular old in-your-shoes aerobics.

But fear not. If this sounds like an exciting new part of your workout regimen, slide boards are still available for sale online, at prices ranging from $80 to $460. Or you can keep your feet on solid ground (for free).

### Titanium and Hologram Jewelry

I still see these from time to time – I think they hit their peak in popularity around 2010 when just about every participant in the World Series that year seemed to be sporting a titanium necklace. Apparently, the San

Francisco Giants wore more of this “performance enhancing” neckwear than their opponents, the Texas Rangers, because the Giants won the October Classic that year. Or maybe there is an alternative explanation: Titanium jewelry does absolutely nothing to impact performance, and the Giants were just better.

Picture: Mitch Moreland’s titanium necklace helped him to a late-inning strikeout in Game 5 of the 2010 World Series

Gym-goers at that time wore necklaces and bracelets purported to help with balance and energy. Nanoparticles of titanium could “regulate the body’s natural electric currents through cell ionization, promoting muscle relaxation, providing relief from pain, stress, and fatigue and improving blood circulation,” according to Major League Baseball’s website.

And there actually was a scientific study to back it up. Sort of. Phiten, the Japanese company that manufactured the jewelry, claimed that in one study “mice that slept on rubber sheets infused with the titanium were more relaxed.” Can’t argue with that, although I’m not entirely sure how you decide one mouse looks more relaxed than another. Is he kicking back in a Barca-lounger, sipping a Mai Tai and quoting *The Big Lebowski*?

Look on YouTube and you can find evidence for the efficacy of this product: live demonstrations performed on random subjects. When they don’t wear the jewelry, the demonstrator is easily able to pull them off balance, but after putting on a bracelet or necklace, or just having it in their pocket, the demonstrator can’t seem to budge the subject from the spot.

But what you’re seeing is nothing more than a parlor trick, as widely shown in debunking videos like this one: https://www.youtube.com/watch?v=Aoq0k4iRLUs

No question the Rangers made a powerful fashion statement with their color-coordinated, beautifully woven neckwear in 2010, but it didn’t win them a championship, and it won’t advance your workout either.

### Minimalist Footwear

It was only in researching this article that I learned the name of this trend. I always called them Gorilla Feet.

Picture: The same shoes J. Fred Muggs wore when he won the 1957 Boston Marathon

My research tells me they were designed for runners to help them adopt a lower-impact stride to reduce injuries, yet a few years ago, folks starting popping up with them in the weight room at my gym. Why? Couldn’t tell you.

But I can tell you a false advertising class-action lawsuit was recently settled against Vibram, USA, one of the manufacturers of these spectacularly hideous shoes. Seems the shoes led to *increased* injuries. Shocking.

I don’t know if any of the money awarded to plaintiffs was specifically related to psychological damage from realizing how ridiculous they looked wearing them.

### Donkey Mask

These also have a more technically correct name – elevation masks. I think I had my first sighting of this in the gym about 5 years ago, and it really is the topper. Every claim made by the manufacturer is easily debunked, yet there are customers, gleefully scooping them up (for about $100 a piece) based on the empty promise of a better workout.

The elevation mask simulated the lower oxygen you'd experience at a high altitude and is based on what I call Monday Night Football Science. Every time a football game is broadcast from Mile High Stadium in Denver (home field to the NFL's Broncos) you're sure to hear one of the announcers pontificate on the effect of the high altitude on the visiting team. A favorite TV image in the 4th quarter is the exhausted lineman on the away team sideline hooked up to an oxygen tank.

Picture: Question: Do I want to look like a horse at the gym? Answer: Neigh.

The logic goes that the Denver Broncos exercise at high altitude, giving them extra stamina, so recreating that workout environment can do the same for you.

In short: it can't. It's not just working out that causes a physiological change. It's living at high altitude, for weeks and months. There is absolutely zero scientifically established benefit to donning a mask for a one-hour workout at sea level, then taking it off. Yet there are folks looking even sillier than the monkey shoe wearers.

So now, well into page 3 of this article, I can finally make my point: The financial world is filled with equally frivolous trends and fads, and investors desperate for something, anything to enhance their performance, fall for those tricks time and time again. Here are a few:

### Super Bowl Indicator

In 1978, a writer for The New York Times observed that when a National Football Conference (NFC) team wins the Super Bowl, the market does better that year than if an American Football Conference (AFC) team wins.

Up until that point, there did seem to be some correlation based on historical data, but historical returns won't help you put together a winning portfolio.

Just as a coin flipper can defy the 50-50 odds and flip "heads" 70% or 80% of the time for a while, eventually, given enough flips (and a fair coin), he'll return to the average. So, too, the reliability of the Super Bowl Indicator hasn't been nearly as good since its discovery.

Over the last 10 years, for example, the indicator has been correct 6 times and wrong 4 times. But when it was wrong, it was really wrong. In 2013, an AFC team won the Super Bowl and the market rose 26.39%. And in 2008, the winner was an NFC team. You may recall the market was down a skosh that year.

Overall (and ignoring all fees, taxes and transaction costs), if you had $100,000 in 2007 and invested it in the S&P 500 when the NFC won the Super Bowl and moved to cash when the AFC won, you'd have ended 2016 with about $86,000. On the other hand, if you had just stuck with your investment the full ten years (again ignoring all costs and fees), you'd have ended up with about $149,000, or what I like to call way, way more.

### Hedge Funds

While they remain popular, more and more evidence is piling up that hedge fund managers only make themselves rich, not their clients.

One of the biggest selling points of hedge funds, when they debuted, was their ability to protect investors against losses in down markets by taking "short" positions designed to pay off if stock prices go down. But while they *can* do that, there is little evidence they actually *do* do that. (Do do pun intended.) In the down market of 2008-2009, hedge funds got hammered just as badly as funds invested in the "long" market, and hundreds of them folded.

Given their typical fee structure of 2% of assets each year **plus** 20% of the profits, the investors in folded hedge funds may have been the lucky ones.

### Smart Beta

The most searched term of 2015 on Investopedia, according to Business Insider, was Smart Beta. Managers hawking smart beta funds claimed that modifying indexes to weight stocks differently based on their market volatility was the key to outperforming the market. If you didn't understand most of that sentence, no worries. I'm guessing neither did most of the investors who plunked their money into those funds, as well as a few of the advisors and fund managers selling them. What they did understand was the "outperform the market" part of the sentence.

Too often, that's all it takes. Use a bunch of technical terms to describe your strategy and conclude with "outperform the market." You're likely to scrounge up a willing investor or two.

Two major problems with the smart beta approach are 1) cost – you are taking an inexpensive passive indexing strategy and making it active, looking to "skilled" managers to decide how to depart from the index. That's going to be more expensive than a similar "passive only" fund, and 2) risk – such funds might very well outperform the index, but most likely the outperformance is being driven by additional risk-taking on higher amounts of risky stocks that are contained in the index. That means comparing the fund's performance to the index is kind of cheating.

### (Dis)honorable Mention

- Junk bonds: More risk than reward
- Collateralized debt: Goldman Sachs got rich; you didn't
- Active trading: The fad that won't fade

### Conclusion

Gym trends and investment trends will always come and go, as people clamor for ways to enhance performance, then flee to the next fad when they are dissatisfied with the results. If you follow the wrong trend at the gym, you could end up looking like a cross between an ape and a jackass. Don't make the same mistake with your investments.

*Steve*

## Politics: The New Tax Bill

You may have missed it, but apparently, Congress passed a sweeping tax reform bill last month, which the President signed into law on December 22.

As of late December, here's what we know: It's big, and will impact most taxpayers and businesses, both near and long-term. What we don't know right now are specifics, particularly whether various forms of income are more advantageous to be recognized in 2017 or 2018.

We plan to talk with you in length in the future, either through this newsletter or in person (or both), about the new tax law and how it will impact you, once we've learned more about it. For now, our best advice is to bring your most pressing concerns to your tax professional.

*Steve*

## CORRECTION

Last month in our annual year-end financial checklist, I advised you to spend all your FSA dollars (pretax money put into a Flexible Spending Account) as you will forfeit anything unspent at the end of the year. A client gave me a call and told me that rule changed. (Thanks, R.S.!) You can now "carryover" up to $500, which must be used for expenses incurred in the next year.

*Steve*



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