

FINANCIAL PLANNING NOTES

CLIENT NEWSLETTER

“I’ve found that when the market’s going down and you buy funds wisely, at some point in the future you will be happy. You won’t get there by reading ‘Now is the time to buy.’”

—Peter Lynch

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TALL TALES FROM THE INVESTMENT WORLD’S TOP EXPERTS

A few months ago, *Barron’s* issued their “2018 Mid-Year Roundtable” report. A panel of “investment experts” (*Barron’s* words, not mine) talked about the stock market landscape and gave their predictions for the rest of the year.

In general, they acknowledged that the first half of the year had been “challenging for investors” and saw continuing headwinds in the months ahead. Despite a booming economy and record low unemployment, they pointed to rising interest rates, the expanding federal deficit, and growing tariff battles as catalysts to lower corporate profit growth for the rest of 2018.

Not too bad a prognostication, I’d say. If only they’d packed up and gone home at that point.

But they didn’t. The panel also gave specific stock picks, with “detailed explanations of their investment allure.” I can’t tell you why, back in July, I decided to save that story so I could look back later and figure out if the picks were winners. I see stock pick lists all the time. For some completely random reason, I decided to hang on to the *Barron’s* list.

So how did the *Barron’s* “investment world’s top experts” do with their picks? Did they manage to beat the S&P 500 return from mid-year through mid-December, as I write this article?

Let’s take a look:

Barron’s 2018 Mid-Year Roundtable Recommendations

		Close 6/29/2018	Close 12/19/2018	Gain/ (Loss)
Broadcom Inc	AVGO	242.64	243.89	0.5%
Integrated Device Technology	IDTI	31.88	47.96	50.4%
BWX Technologies	BWXT	62.32	40.86	-34.4%
Redfin Corporation	RDFN	23.09	14.53	-37.1%
AutoZone	AZO	670.93	835.87	24.6%
Anheuser Busch InBev	BUD	100.76	68.8	-31.7%
Kroger	KR	28.45	28.23	-0.8%
Phillips 66	PSX	112.31	85.16	-24.2%
Noble Energy	NBL	35.28	20.07	-43.1%
Arrow Electronics	ARW	75.28	68.74	-8.7%
TOTAL				-10.4%
S&P 500		2718.37	2506.96	-7.8%

It’s a mixed bag, to be sure. A couple of the picks performed very well, including AutoZone, up about 25%, and Integrated Device Technology, up over 50%. That’s pretty good in any market, no less a down one. But there

aren't a lot of winners after that. Two stocks pretty much held flat, while half of the picks fell 24% or more.

In fact, of the five “experts,” each picking two stocks, only one chose stocks providing an average return in excess of the S&P 500's return. His two stocks combined to return 25%, while the S&P fell almost 8%! That's great if you went with his recommendations. If you chose randomly, however, there's an 80% chance you would have ended up with the recommendations of one of the other four, whose picks, on average, lost more than 19%.

If you decided to “cover all bases” and go with all of the “expert” picks, your portfolio would have lost 10.4% (not accounting for taxes and fees), a worse result than just investing in an S&P 500 index fund.

This leads to an important conclusion. We all want to believe there is some action we can take when we see troubling times ahead in the market. But just because we might be able to accurately predict a down market doesn't necessarily mean we can develop a strategy, and take action to profit, or mitigate losses in our portfolios. Too often, that “strategy” ends up being a bigger losing game than just staying put in a diversified portfolio and riding out the short-term waves.

—*Steve Tepper*

Sources:

2018 Mid-Year Roundtable: Good News for Stockpickers by Lauren R. Rubin, barrons.com, July 13, 2018.

10 Favorite Bargains of America's Top Pickers by Matthew Johnston, Investopedia.com, July 23, 2018.

WHERE HAVE I SEEN THIS BEFORE?

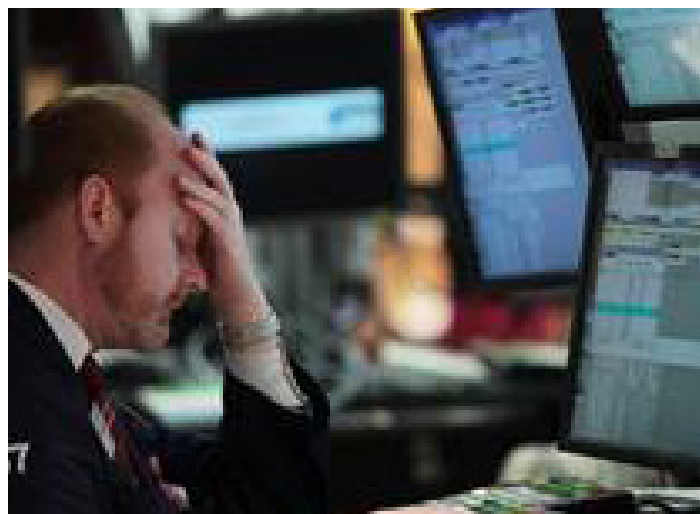
We've been through this before. We're going through it now. We'll go through it again. It stinks, folks. I'm not going to sugarcoat it at all. It stinks to watch the market tumble hundreds of points day after day. It stinks to take a look at your portfolio and watch that value sink day after day. We find comfort in the faith that markets will recover, along with our account balances, but it still stinks. We understand academically that markets must

have these periods to give us the outstanding long-term returns we expect, but it still stinks.

Whether this is a short-term correction or the beginning of a long-term slide, I don't know. And neither do any of the so-called “experts.” But I do know that I'm hearing a lot of familiar soundbites and seeing a lot of familiar images. This one was on the front page of the Yahoo finance page about a week ago:



The title of this article—“Where Have I Seen This Before?”—is a little misleading. I never asked the question. I know where I've seen this before. It pretty much accompanies every downturn, long term or not. Here are a few past moments:





These other images are not from last week. They are from other downturns and down market days. Last week's image is not unique. When the market tumbles, it's obligatory for the financial media to go out and get that shot of an anguished stockbroker, head in hands, with the backdrop of a bunch of computer screens. My favorite is the last one. Look at those monitors! That's the 1987 crash, folks!

It does beg a "chicken or the egg" question. Does stock trading cause migraines? Or are people prone to migraines drawn to the profession? I'm not a philosopher, so I will not try to answer the question. I have only this takeaway: The more things change, the more they stay the same. Yes, it stinks. It stank every time in the past, it stinks now, and it always will stink. But we will get through. So keep calm, and take an Advil.

—Steve Tepper

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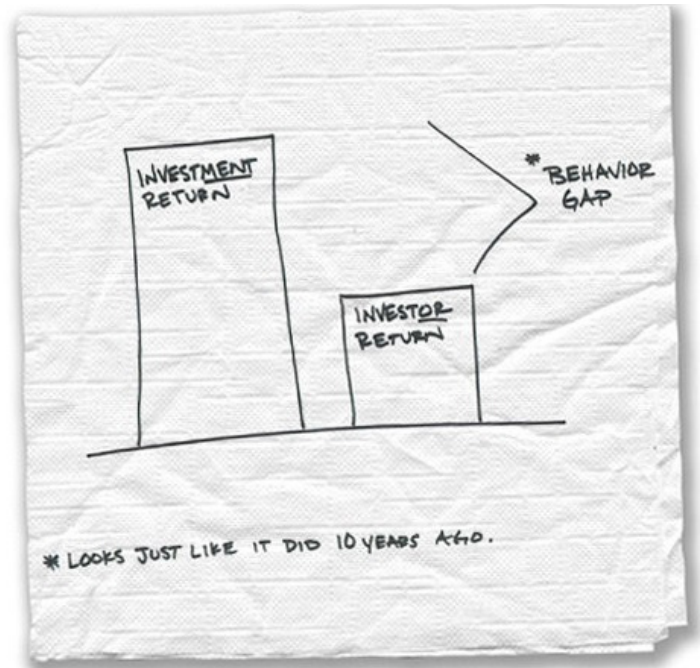
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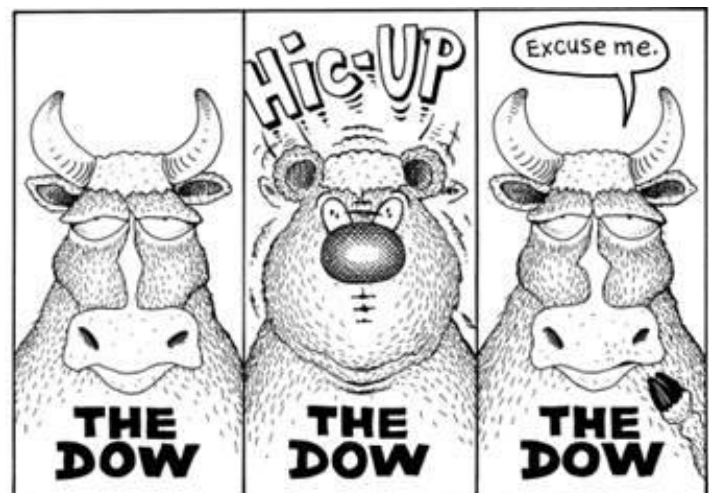
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FROM CARL RICHARDS' NAPKIN BLOG



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