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summaries

SIGMA INVESTMENT COUNSELORS

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Reader Beware

We regularly monitor the business section of the New York Times since many clients read it and invariably, we are asked to weigh in on articles. A case in point is an article titled ***"5 Tips to Weather a Turbulent Stock Market"*** found in the February 16, 2018 issue.

Initially, we presumed the article to be a humorous parody. During our second read, however, we realized the author was serious. We were incredulous. As we found ourselves similarly amused and disheartened by the content, we felt it may prove instructive to take the article apart and point out the flaws so others are not tempted to indiscriminately follow such poor advice.

TIP 1: **Pick individual winners.** Really? The recommendation by the expert cited in the article was to pick individual stocks that will be winners. Hmmm. There's a novel thought. It reminded us of the well-worn Will Rogers tongue-in-cheek investment quip: "Don't gamble; take all your savings and buy some good stock and hold it till it goes up, then sell it. If it don't go up, don't buy it."

An expert can claim that he/she can successfully pick winning stocks but unless it is backed up with a long term track record, we question the validity of the boast. Interestingly, the article then goes on to point out that 90% of managers underperform the markets with their picks. Finally, the expert exclaimed "I think it helps to be a bit more concentrated. It allows investors to find a different avenue." We cannot for the life of us figure out what these two sentences are suggesting.

We recommend Tip 1 be discarded.

TIP 2: **Consider bonds carefully.** On the surface, this struck us as reasonable as the author notes correctly that bond values fall as interest rates rise and it was clear that this is the current outlook. However, it was then suggested that investors turn their attention away from bonds and instead, buy private debt which is essentially loans to small and medium-size companies. Private debt is hard to find, tends to be illiquid, hard to price and expensive to own. Moreover, the credit risk is quite high. So, we question the logic of delving into the private debt marketplace in an attempt to "weather a turbulent market". Moreover, most investors have neither the time nor resources to adequately research and monitor such investments.

We recommend Tip 2 be discarded.

Tip 3: **Find Alternative Strategies.** The article specifically names hedge funds as the preferred alternative investment notwithstanding that scores of institutional investors and public pension plans have been abandoning hedge funds, including the California Public Employees Retirement System, as indicated in the article. Similar to our comments on private debt, hedge funds have high internal expense ratios, are not marketable, have a spotty track record and are quite difficult to research and monitor. As an aside, we are proud of our decision to deliberately exclude hedge funds in any of our clients' actively managed accounts.

We recommend Tip 3 be discarded.

Tip 4. **Go global.** We agree. We have routinely included non-North American investments in client portfolios and the results have shown that this has reduced the volatility of our portfolios as measured over a complete market cycle.

We recommend following Tip 4.

Tip 5. **Enjoy the ride.** We believe investing is a serious business. Due diligence should be applied at all levels of investing and there should be a disciplined process that is pursued. Instead of enjoying the ride, we would suggest that investors prepare emotionally for those periods when downside volatility rears its head, and develop the fortitude to stick with their well thought-out plan. We would suggest that instead of enjoying the ride, investors **Prepare for the Journey**.

All comments and questions are welcomed.

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