

Dear Reader:

### YEARLY DEMENTIA TEST

From my friend, David

I decided to start off with a challenge.

Yep, it's that time of year again—time for us to take our annual senior citizen test. Exercise of the brain is as important as exercise of the muscles.

As we grow older, it's important to keep mentally alert. If you don't use it, you'll lose it!!! Here is a very private way to gauge how your current memory compares to that of your last test. Some may think it's too easy, but the ones with memory problems may have difficulty.

Take this test to determine if you're losing it or not. Answers are at the end of the NewsLetter. DON'T cheat and look ahead.

OK, **RELAX**. Clear your mind and then begin.

#1. What do you put in a toaster? \_\_\_\_\_

#2. Say "silk" ten times. Now spell "silk." What do cows drink? \_\_\_\_\_

#3. If a red house is made from red bricks and a blue house is made from blue bricks and a pink house is made from pink bricks and a black house is made from black bricks, what is a greenhouse made from? \_\_\_\_\_

#4. Please do not use a calculator for this question, as it would be cheating.

You are driving a bus from New York City to Philadelphia. In Staten Island, 17 people got on the bus. In New Brunswick, 6 people get off the bus and 9 people get on. In Windsor, 2 people get off and 4 get on. In Trenton, 11 people get off and 16 people get on. In Bristol, 3 people get off and 5 people get on. In Camden, 6 people get off and 3 get on. You then arrive at Philadelphia Station.

Without going back to review, how old is the bus driver? \_\_\_\_\_

**ONE CAN ONLY HOPE**

*“SEC share-class crackdown could spell the end for 12b-1 fees”*

“The SEC enforcement cases have not said it’s inappropriate for investment advisers to pay 12b-1 fees to brokers. The problem is that the advisers are violating their fiduciary duty by not telling their clients about the conflict of interest created by the 12b-1 fee revenue...”

The SEC is essentially saying 12b-1 fees are a thing of the past,” said Addleman, former director of the SEC’s Atlanta office. “There is no amount of disclosure that allows you to keep the fees.”

<https://www.investmentnews.com/sec-crackdown-12b-1-196233>

**LOGOs**

From Alex



See the gorilla and lioness (in white) facing each other?  
AWESOME ~ LOVED this one!



Do you see the arrow between the "E" and "x" (in white)?  
I had never noticed it before.



The world’s most famous bike race. The "R" in "Tour" is a cyclist.  
The yellow circle is the front wheel of a bicycle, the "O" is the back wheel



The arrow means Amazon has everything from A to Z



See the "31" embedded in the "BR"?  
Thirty-one-derful flavors!

### **UH-OH: INVESTORS PREDICT ‘DOW 50,000’ – IN JUST FIVE YEARS**

The average U.S. investor must be even higher than the stock market.

What else can explain the results of a new survey, which found that, among a sample of 1,500 people here in the U.S. who manage their portfolios, the average person expected the stock market to generate sky-high returns of 15.4% a year over the next five years?

After accounting for dividends, that would mean stock prices would nearly double by 2025...  
Yikes...

If that happens, can we all achieve “Financial Independence” and “Retire Early” to the beach? Just in time for the robots, artificial intelligence, and self-driving cars to do all the work...Oh, and this forecast was the *average* in the survey. Heaven knows what the optimists expect...

The poll was conducted by global money-management firm Schrodgers, which [surveyed](#) 23,450 private investors in 32 countries around the world. About 10% were already retired, and the other 90% were presumably saving for retirement. Those in the U.S., by the way, came out as, by far, the most optimistic—or possibly deluded—in the world. The Japanese are expecting returns to be less than half as much as folks here.

<https://www.marketwatch.com/story/uh-oh-investors-predict-dow-50000-in-just-five-years-2020-08-17>

### **FIDELITY TO LAUNCH BITCOIN FUND FOR WEALTHY INVESTORS**

Hope they stay wealthy.

<https://www.financial-planning.com/articles/fidelity-investments-files-with-sec-to-launch-bitcoin-fund-for-wealthy-investors>



## WE'VE COME A LONG WAY

From an article in *Texas Tech Today*



Historian Emily Skidmore says the ongoing fight for women's equality is as old as our country.

When the 19th amendment to the U.S. Constitution was ratified on Aug. 18, 1920, it gave women throughout the nation the right to vote, achieving a goal as old as the nation itself. While the amendment marked a step forward in women's equality, it did not benefit all women equally, and work toward women's equality endures even a century later.

## THEN, MAYBE NOT

**Men tend to choose higher paying careers like doctor, engineer, lawyer, or CEO. While women tend to choose lower paying careers like female doctor, female engineer, female lawyer, or female CEO.**



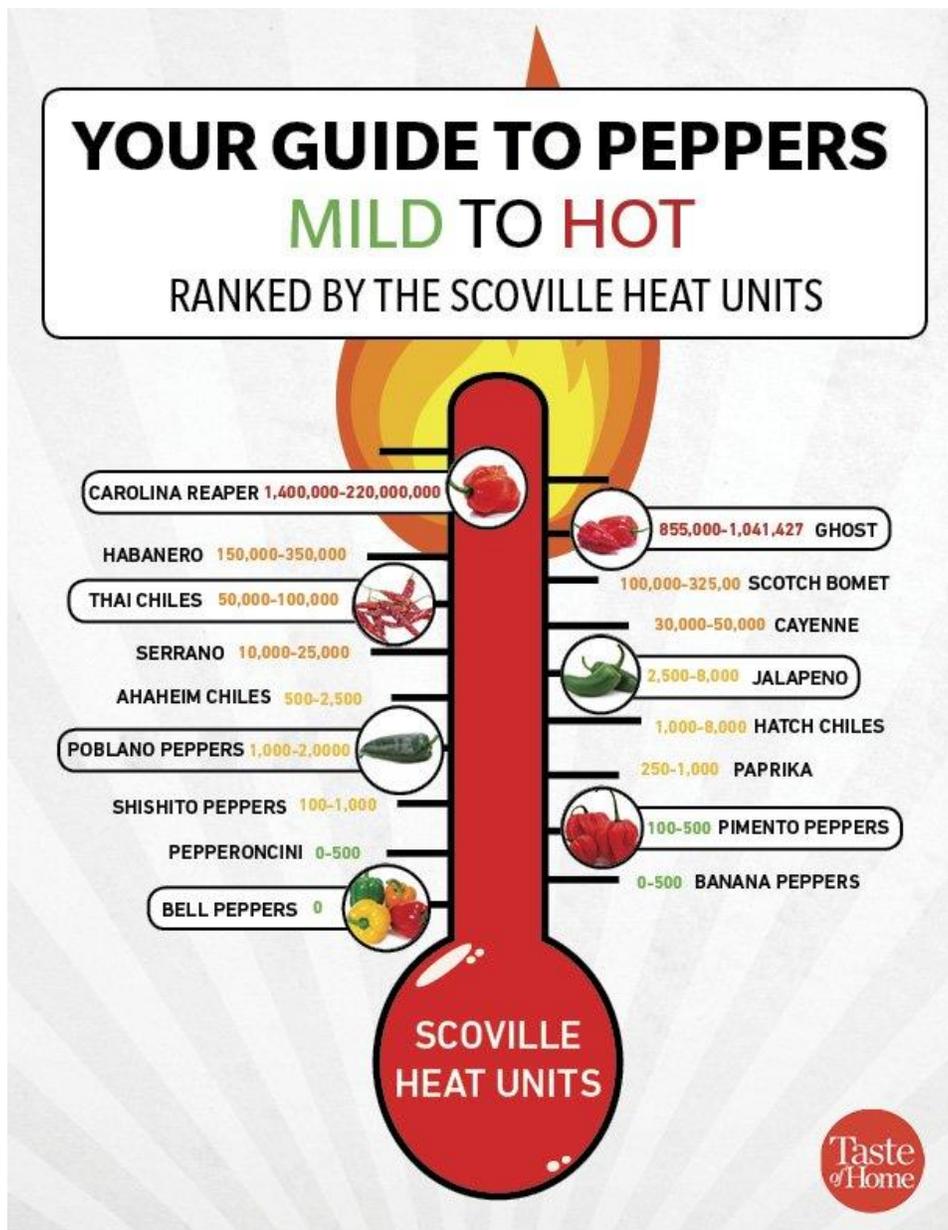
## COOL

Rope skipping!

<https://youtu.be/th9doc-A9B4>

## HOT

<https://pepperhead.com/top-10-worlds-hottest-peppers/>



## SAME OLD, SAME OLD

I know I’m probably beating a dead horse, but it can’t be that dead with all of the active managers still raking in money.

### *S&P Dow Jones Indices SPIVA Mid-Year Report*

“Despite divergent results over the one-year horizon, both growth and value funds underperformed their benchmarks over the past decade. Large-cap (growth 82%, value 86%), mid-cap (60%, 81%), and small-cap (57%, 90%) all delivered painful results.”

**Report 1: Percentage of U.S. Equity Funds Outperformed by Benchmarks**

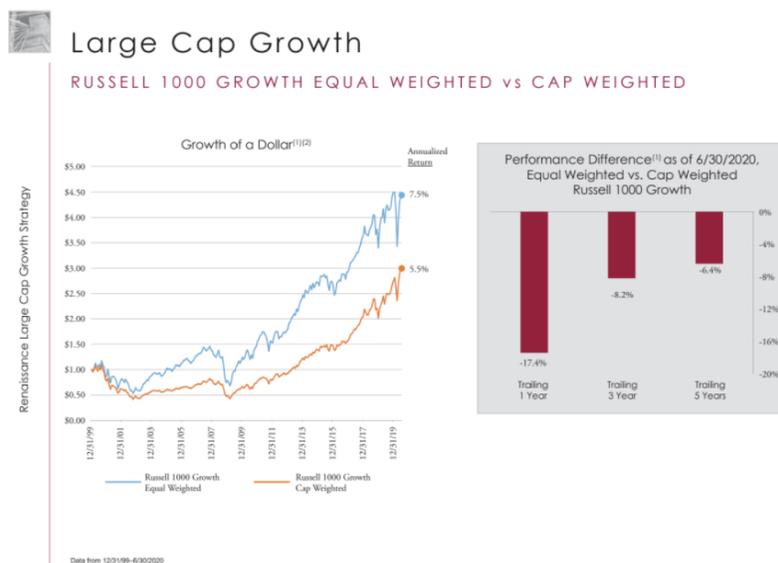
FUND CATEGORY	COMPARISON INDEX	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	10-YEAR (%)	15-YEAR (%)
All Domestic Funds	S&P Composite 1500	67.40	70.59	80.09	84.49	87.23
All Large-Cap Funds	S&P 500	63.17	71.24	77.97	82.06	86.92

[https://www.spglobal.com/spdji/en/documents/spiva/spiva-us-mid-year-2020.pdf?force\\_download=true](https://www.spglobal.com/spdji/en/documents/spiva/spiva-us-mid-year-2020.pdf?force_download=true)

## DO YOUR RESEARCH

For example, don’t just rely on headlines. This is true for professionals, as well as for retail investors. Below is a marketing piece I received from a fund company.

“Today’s chart provides a glimpse into why it may make sense to equal weight LCG today...Renaissance LCG SMA has been an equally weighted portfolio since inception in 1991.”



Nice marketing piece, but a closer look at the actual fund performance wasn't as impressive.

	Morningstar Risk Adjusted Measure (Sharpe Ratio*)		
	3 Yr	5 Yr	10 Yr
AMG Renaissance Large Cap Growth	0.72	0.69	0.88
Russell 1000 Growth Total Return (Morningstar Index)	1.06	1.0	1.17

The Sharpe ratio measures a fund's risk-adjusted returns. The higher a fund's Sharpe ratio, the better a fund's returns have been relative to the volatility it has experienced.

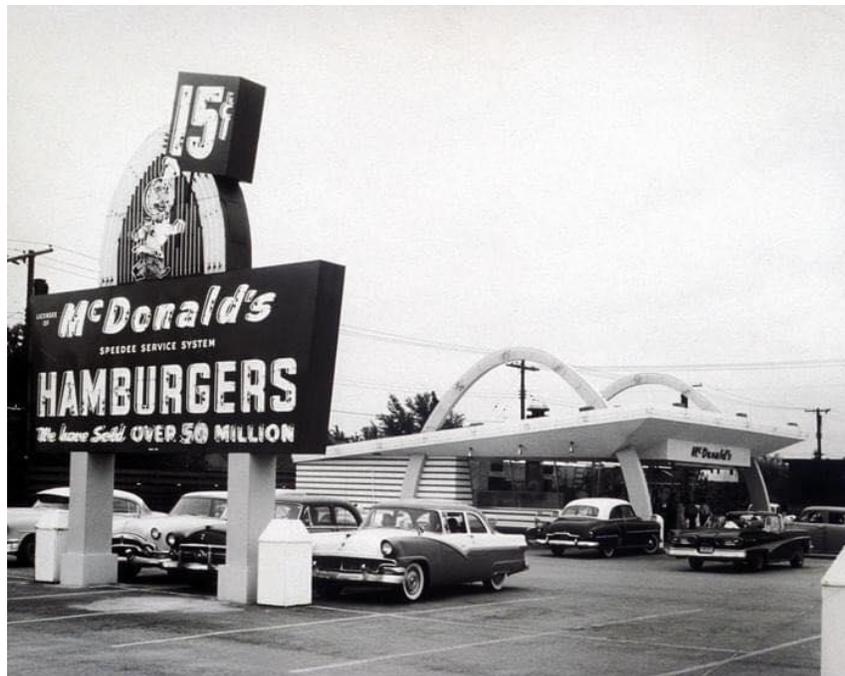
**STILL WAITING**

*Jim Cramer says the market rally could end July 27 (CNBC 7/27/2020).*

As of 10/2, it's up 2.7% since 7/31.

<https://www.cnbc.com/video/2020/07/22/jim-cramer-says-the-market-rally-could-end-july-27.html>

**GOOD OLD DAYS**



## THE ANSWER IS NO!!!

A headline in *InvestmentNews* highlighted the popular issue of “free” trading.

*Robinhood can benefit young investors — but is it worth the risks?*

I found some of the comments in the article scary.

“To be fair, free trading apps do remove the barrier of entry for young investors to take their finances into their own hands...” *The only barrier is one preventing naive investors from churning themselves to death.*

“Over the years I have been trying to get my clients excited about investing without success,” he said. “Seeing their recent interest is encouraging. Yes, some will lose money and others will make money — but the lessons learned during this pandemic will be invaluable.” *Right, losing money they can’t afford to lose will definitely be a lesson learned.*

“...[at] a firm specializing in working with couples in their 30s and 40s, plenty of her clients use Robinhood and Stash for free trades and fractional share purchases... [it] encourages her clients to see their accounts with Robinhood or Stash as their ‘fun money,’ she said. “If it all goes to zero, they can still accomplish their big goals. If it does well, then it will get them to their goals faster.” Wow, this advisor must have a very different clientele than I’m familiar with, if they have enough “fun money” to play around trading stock.

I agree with Christine Benz of Morningstar, although I believe she is excessively polite. Rather than “not a great way,” I think it’s an insane way.



**Christine Benz**  
@christine\_benz

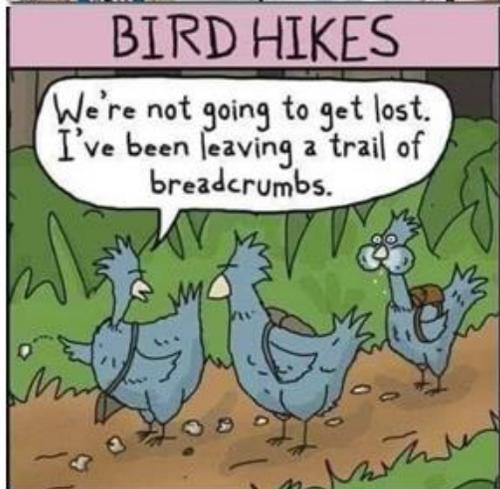


I'm going to keep on saying it: Individual stocks are not a great way for young people to get started in investing.

<https://www.investmentnews.com/robinhood-young-investors-risks-196509>



FROM PETER

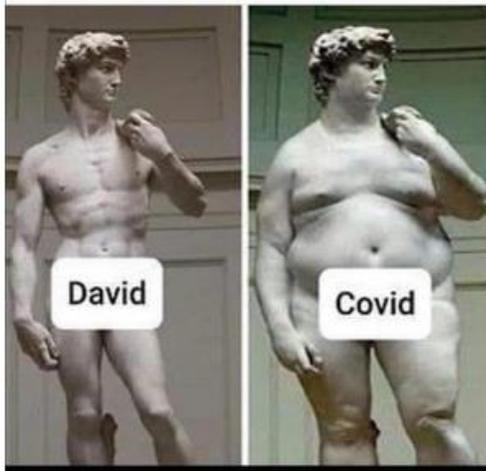


**The longer I stay home, the more homeless I look.**



Be aware she can move in any direction





### **BAH HUMBUG**

From a recent *InvestmentNews* article

*Advisers question the value of bonds in client portfolios.*

*The traditional portfolio ballast layers on risk without providing much reward.*

“It’s naïveté to focus on poor bond returns and not their place in a balanced portfolio,” said Harold Evensky, chairman and co-founder of Evensky & Katz/Foldes Financial Wealth Management.

Evensky added that the anti-bond trend is likely temporary, “until the next major market correction, when they realize that stock returns don’t always go up, and in those cases, it’s nice to have some [ability] to buy stock at bargain prices.”

<https://www.investmentnews.com/advisers-questioning-value-bonds-client-portfolios-196238>

### **DEJA VIEU ALL OVER AGAIN**

*Stock investors are the most bullish they've been in 15 years, one measure shows.*

Sure hope they’re right, but I wouldn’t bet the farm.

<https://markets.businessinsider.com/news/stocks/stock-market-outlook-investors-most-bullish-years-short-interest-2020-8-1029525803#>

### **WHY AM I NOT SURPRISED?**

*Do 401(k) Advisors Add Value-* Morningstar

While the differences associated with 401(k) plans that had an advisor varied by test, the overall analysis strongly suggests that smaller 401(k) plans – defined as those with assets from \$1 million to \$50 million – that have an advisor are doing better than those without.

<https://www.morningstar.com/lp/value-of-advisors>

### NEGLECTED TO NOTE

That the 50% annual return figure noted below was **before fees for the period from 1985 to 1994**. More recently, he has been manager of Gotham Large Value Fund (GVALX). Below is the fund's performance since inception, as compared to the iShares Russell 3000 Index (IWM).

#### BUSINESS INSIDER

**Warren Buffett disciple Joel Greenblatt averaged 50% annual returns over 10 years. He shares an investor's approach to solving some of America's most glaring problems right now**



<https://www.businessinsider.com/joel-greenblatt-book-interview-common-sense-education-immigration-social-security-2020-8>

## WISE WORDS FROM MORNINGSTAR

*Here's Why You Should Rebalance (Again)*

Rebalancing during a bear market can feel painful, but it pays off in the long run.

The Exhibit below shows the max drawdown during both periods and how long it took the portfolio to recover its losses, as compared with the same portfolio rebalanced annually at the end of each year, arguably the simplest rebalancing strategy. It also includes the current drawdown through March 20.

### Drawdown Periods

	Max Drawdown	Peak Date	Valley Date	Recovery Date	Recovery Periods
<b>2000s Recession</b>					
Buy & Hold Portfolio	-28.3	9/1/2000	9/30/2002	2/28/2005	29.0
Yearly Rebalance Portfolio	-20.7	9/1/2000	9/30/2002	12/31/2003	15.0
<b>2007–2008 Financial Crisis</b>					
Buy & Hold Portfolio	-36.6	11/1/2007	2/28/2009	4/30/2011	26.0
Yearly Rebalance Portfolio	-31.9	11/1/2007	2/28/2009	10/31/2010	20.0
<b>2020 Coronavirus Pandemic</b>					
Buy & Hold Portfolio	-25.7	2/20/2020	—	—	—
Yearly Rebalance Portfolio	-19.7	2/20/2020	—	—	—

Source: Morningstar Direct. Data as of March 20, 2020.

The market had recovered by early August.

<https://www.morningstar.com/articles/974578/heres-why-you-should-rebalance-again>

## FOX GUARDING THE HEN HOUSE

“Earlier this summer, the Department of Labor proposed a new restructuring of its fiduciary advice rules that would, for the first time, allow ERISA fiduciaries of retirement plans to receive commission-based compensation, 12b-1 fees, and other conflicted revenue-sharing payments, as long as the plan fiduciaries have otherwise acted in the best interests of the plan participants.”

This give oxymoron new meaning.

<https://www.investmentnews.com/dol-advice-proposal-criticized-by-both-sides-at-hearing-196727>.

## MORE GURUS BITE THE DUST

*“Of more than 700 U.S.-listed smart-beta ETFs, about 60% have undershot their indexes since the start of this year, according to data compiled by Bloomberg.*

It’s every quant’s nightmare: Trades that look good on paper break down in the real world. And in the \$1 trillion business of smart-beta investing, it’s happening on an industrial scale.

According to a new study, hundreds of strategies that showed significant outperformance in backtesting are failing to live up to their hype once they are packaged up and sold as ETFs.”

Hindsight is 20/20. Investing based on hindsight can be expensive.

<https://www.financial-planning.com/articles/quant-investing-fears-ring-true-in-1-trillion-world-of-smart-beta>

## WHAT A DIFFERENCE A YEAR MAKES

My associate, Danqin, did some research to see what major firms were projecting for long-term nominal market returns in 2018 and 2019. Not too surprisingly, predicting the future is a slippery slope.

Source	US Large Stocks		Percent Change
	2019	2018	
JP Morgan	5.2%	5.5%	-5%
Morgan Stanley	7.1%	4.9%	45%
Charles Schwab	7.4%	6.5%	14%
Vanguard	4.5%	4.0%	13%

## LOOKS LIKE I’M NOT THE ONLY ONE CONCERNED

*State Regulators Question SEC’s Private Markets Decision During Annual Conference*

Incoming NASAA President Lisa Hopkins said the expansion of private markets without proper regulation and transparency is a “potential breeding ground for fraud,” during the organization’s virtual annual conference.

[https://www.wealthmanagement.com/regulation-compliance/state-regulators-question-secs-private-markets-decision-during-annual?NL=WM-27&Issue=WM-27\\_20200905\\_WM-27\\_685&sfvc4enews=42&cl=article\\_9\\_b&utm\\_rid=CPG09000006048947&utm\\_campaign=28816&utm\\_medium=email&elq2=e26ecdfad1c845dd9329eb41a06330d2&oly\\_enc\\_id=1239F9850612E8V](https://www.wealthmanagement.com/regulation-compliance/state-regulators-question-secs-private-markets-decision-during-annual?NL=WM-27&Issue=WM-27_20200905_WM-27_685&sfvc4enews=42&cl=article_9_b&utm_rid=CPG09000006048947&utm_campaign=28816&utm_medium=email&elq2=e26ecdfad1c845dd9329eb41a06330d2&oly_enc_id=1239F9850612E8V)

## **SEIZE THE MOMENT**

Remember all those women on the Titanic who waved off the dessert cart. —Erma Bombeck

## **DEJA VU ALL OVER AGAIN**

*Merrill's army of newbies to resume cold-calling*

When I started in this business almost 40 years ago, it was as a stock broker with Bache (now Prudential). After a few weeks of training, I was given a desk and my manager pointed at my phone and said, "Start calling!" After a dozen hang-ups and nasty comments, I was considering a new career. Luckily, about then, I saw an ad for a new designation known as the Certified Financial Planner (CFP) and my new career was born. Today there are nearly 90,000 CFP's in the U.S. and 190,000 worldwide. In 1984, my number was 6,935.

[https://www.investmentnews.com/merrills-army-newbies-resume-cold-calling-197647?NLID=IN-Daily-Pulse&NL\\_issueDate=2020101&utm\\_source=IN-Daily-Pulse-2020101&utm\\_medium=email&utm\\_campaign=investmentnews&utm\\_visit=177505](https://www.investmentnews.com/merrills-army-newbies-resume-cold-calling-197647?NLID=IN-Daily-Pulse&NL_issueDate=2020101&utm_source=IN-Daily-Pulse-2020101&utm_medium=email&utm_campaign=investmentnews&utm_visit=177505)

## **SIGNS THAT HUMANITY IS REGRESSING**

From my little brother







## US SEC UPGRADES “ACCREDITED INVESTORS,” PUTS FINANCIAL KNOWLEDGE FIRST

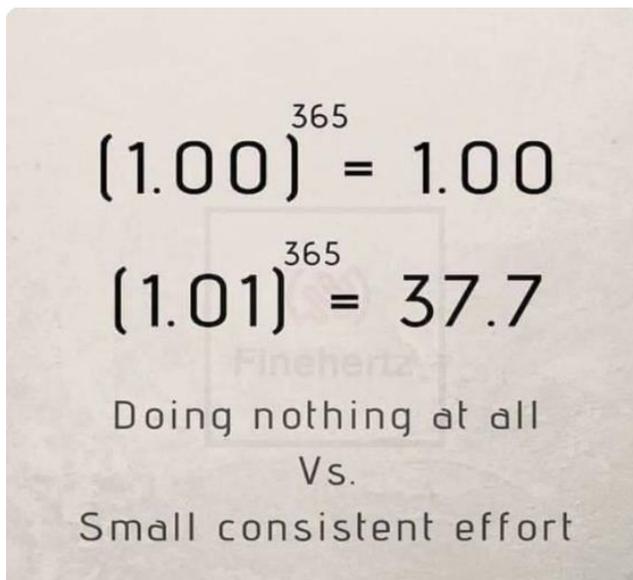
The SEC amending its definition of accredited investors could have significant implications for regulated crypto token sales.

“As part of the SEC amending its definition of an accredited investor, the commission will no longer view wealth as the sole basis for determining whether an individual or corporate entity is eligible to participate in a private equity sale...The new definition includes consideration of ‘financial sophistication’ in determining whether individuals or institutions are qualified investors.”

Couldn’t agree more that wealth is not a good standard for investment knowledge, but I’d love to know how the SEC will determine an investors “sophistication” regarding crypto token sales. I believe most professional advisors (me included) are unqualified to do the appropriate due diligence on such investments.

<https://cointelegraph.com/news/us-sec-upgrades-accredited-investors-puts-financial-knowledge-first>

## THINK ABOUT IT



## LOTS OF GURUS

Predicting future returns. Below is an example from Vanguard.

“Our 10-year annualized nominal return projections are as follows. Please note that the figures are based on a 1-point range around the 50th percentile of the distribution of return outcomes for equities and a 0.5-point range around the 50th percentile for fixed income. Numbers in parentheses reflect median volatility.”

### Vanguard's 10-year annualized outlook for asset class

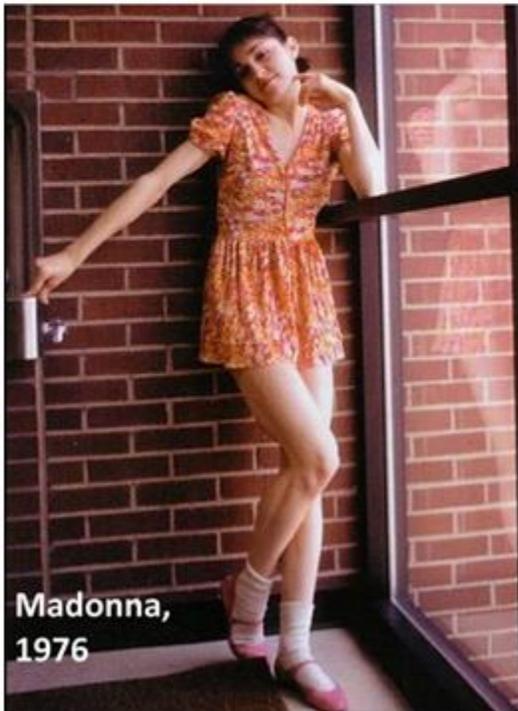
U.S. equities	3.9%-5.9% (17.9% median volatility)
Global equities ex-U.S. (unhedged)	7.4%-9.4% (18.6%)
U.S. value	5.0%-7.0% (19.9%)
U.S. growth	1.6%-3.6% (19.5%)
U.S. large-cap	3.7%-5.7% (19.4%)
U.S. small-cap	4.0%-6.0% (23.5%)
U.S. REITs	3.4%-5.4% (19.9%)
U.S. aggregate bonds	0.7%-1.7% (4.0%)
U.S. Treasury bonds	0.3%-1.3% (4.2%)
Global bonds ex-U.S. (hedged)	0.5%-1.5% (2.5%)
U.S. credit	1.4%-2.4% (5.7%)
U.S. high-yield corporate	3.2%-4.2% (10.7%)
Emerging market sovereign	3.1%-4.1% (11.1%)
U.S. TIPS	0.4%-1.4% (6.4%)
U.S. cash	0.5%-1.5% (0.9%)
U.S. inflation	0.5%-1.5% (2.4%)

Sobering numbers indeed. Interesting to note the wide ranges and the difference between growth and value and the low inflation expectation.



### MORE GREAT PICTURES

Also from Peter

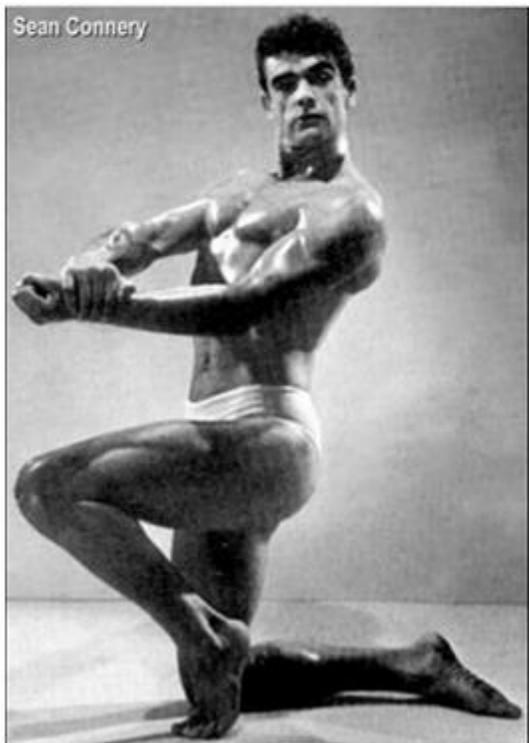




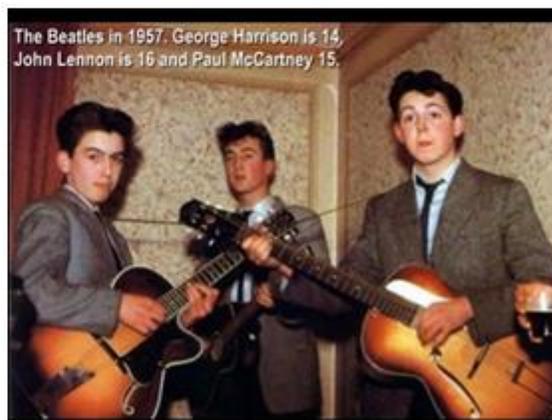
Elton John



Jane Fonda



Sean Connery



The Beatles in 1957. George Harrison is 14, John Lennon is 16 and Paul McCartney 15.

## LITTLE COMPANIES, BIG CHOPS

An interesting article about Wasatch Micro Cap fund. It provides food for thought on how much weight to apply to short-term performance. While the fund has blown the socks off its index competitor IJT (iShares S&P Small Cap Growth) for about 7 months (when I read the article), the prior 8 years and 3 months was a dead heat. While great short-term performance is always exciting, it all too often will precede significant later under performance. Only time will tell.



<https://www.fa-mag.com/news/little-companies--big-chops-57126.html>

## BRAIN TEST ANSWERS

#1 Answer: "Bread." If you said "toast," just give up now and go do something else and try not to hurt yourself.

#2 Answer: Cows drink water. If you said "milk," don't attempt the next question. Your brain is already over-stressed and may even overheat. Content yourself with reading more appropriate literature, such as Women's Weekly or Auto World. However, if you did say "water," proceed to Question #3.

#3 Answer: Greenhouses are made from glass. If you said "green bricks," why are you still reading this??? PLEASE, go lie down! But, if you said "glass," go on to Question #4.

#4 Answer: Oh, for crying out loud. Don't you remember your own age?!?! It was YOU driving the bus!

If it's any consolation, 95% of people fail most of the questions!

Hope you enjoyed this issue, and I look forward to "seeing" you again.



Harold Evensky  
Founder  
Evensky & Katz / Foldes Financial Wealth Management

### Important Disclosure

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