

DEAR READER,

SUCCOTASH

Mixing vegetables together may be fine for food (although it's not my favorite), but it's nonsense in the investment world. When you hire a money manager (e.g., a mutual fund), do you really care how good his or her sibling managers are if he or she is awful? Do your due diligence on the fund, not the family.

▼ Fund Families

Ranked by 04-2019 Total Net Assets (\$Bil)

| Name | Estimated Net Flow (\$Mil) | | | | ENF 04-2019 (\$Mil) | | Market Share Basis: Total Net Assets (\$Bil) | | | | | # Share Classes | | | |
|--------------------------------|----------------------------|---------|---------|----------|---------------------|---------|--|---------|------|---------|---------|-----------------|----------|-------|-------|
| | 1-Mo | QTD | YTD | 1-Yr | Active | Passive | 04-2019 | Mkt Sh% | Rank | 04-2018 | Mkt Sh% | Rank | Reported | Total | R/T % |
| Vanguard | (146) | (146) | 45,490 | 75,243 | (827) | 681 | 3,835 | 25.32 | 1 | 3,491 | 23.63 | 1 | 276 | 331 | 83 |
| Fidelity Investments | 27,970 | 27,970 | 50,651 | 98,815 | (2,868) | 30,838 | 1,659 | 10.95 | 2 | 1,489 | 10.08 | 3 | 827 | 1,219 | 68 |
| American Funds | 1,425 | 1,425 | 11,541 | 9,717 | 1,425 | | 1,644 | 10.86 | 3 | 1,547 | 10.47 | 2 | 522 | 602 | 87 |
| T. Rowe Price | (1,560) | (1,560) | (3,418) | (17,526) | (1,289) | (271) | 631 | 4.17 | 4 | 601 | 4.06 | 4 | 265 | 284 | 93 |
| Dimensional Fund Advisors | 894 | 894 | 9,374 | 15,555 | 918 | (24) | 427 | 2.82 | 5 | 412 | 2.79 | 5 | 87 | 95 | 92 |
| Franklin Templeton Investments | (1,660) | (1,660) | (6,964) | (30,523) | (1,660) | | 354 | 2.34 | 6 | 370 | 2.50 | 6 | 442 | 671 | 66 |
| PIMCO | 2,026 | 2,026 | 4,843 | (4,059) | 2,026 | | 349 | 2.30 | 7 | 342 | 2.32 | 7 | 322 | 554 | 58 |
| JPMorgan | (1,008) | (1,008) | 811 | (4,719) | (970) | (38) | 305 | 2.02 | 8 | 298 | 2.02 | 8 | 446 | 914 | 49 |
| BlackRock | 1,849 | 1,849 | 5,827 | (90) | 1,736 | 113 | 291 | 1.92 | 9 | 268 | 1.82 | 9 | 496 | 1,055 | 47 |
| Dodge & Cox | (1,228) | (1,228) | (2,086) | (11,810) | (1,228) | | 208 | 1.37 | 10 | 215 | 1.46 | 11 | 6 | 6 | 100 |

Top 10: Drill down View Chart View All

▼ US Category Group

| Name | Estimated Net Flow (\$Mil) | | | | ENF 04-2019 (\$Mil) | | Market Share Basis: Total Net Assets (\$Bil) | | | | | # Share Classes | | | |
|----------------------|----------------------------|---------------|---------------|------------------|---------------------|---------------|--|---------------|------|---------------|---------------|-----------------|---------------|---------------|-----------|
| | 1-Mo | QTD | YTD | 1-Yr | Active | Passive | 04-2019 | Mkt Sh% | Rank | 04-2018 | Mkt Sh% | Rank | Reported | Total | R/T % |
| US Equity | (2,427) | (2,427) | (12,655) | (78,962) | (22,158) | 19,731 | 6,737 | 44.48 | 1 | 6,330 | 42.84 | 1 | 6,893 | 17,313 | 40 |
| Sector Equity | (2,537) | (2,537) | (5,283) | (24,450) | (2,585) | 48 | 464 | 3.06 | 6 | 458 | 3.10 | 6 | 1,432 | 3,074 | 47 |
| International Equity | (14,694) | (14,694) | (8,927) | (33,609) | (8,383) | (6,312) | 2,381 | 15.72 | 3 | 2,595 | 17.56 | 3 | 3,739 | 7,912 | 47 |
| Allocation | (3,352) | (3,352) | (11,674) | (66,262) | (4,015) | 664 | 1,325 | 8.75 | 4 | 1,329 | 9.00 | 4 | 1,567 | 3,284 | 48 |
| Taxable Bond | 35,454 | 35,454 | 103,647 | 76,300 | 15,440 | 20,014 | 3,351 | 22.12 | 2 | 3,189 | 21.58 | 2 | 4,694 | 9,585 | 49 |
| Municipal Bond | 6,219 | 6,219 | 33,199 | 29,241 | 6,216 | 3 | 713 | 4.71 | 5 | 668 | 4.52 | 5 | 1,735 | 4,331 | 40 |
| Alternative | (1,295) | (1,295) | (4,305) | (24,423) | (1,314) | 18 | 148 | 0.97 | 7 | 174 | 1.18 | 7 | 1,188 | 2,229 | 53 |
| Commodities | 302 | 302 | 1,280 | (682) | 285 | 17 | 28 | 0.18 | 8 | 32 | 0.22 | 8 | 109 | 186 | 59 |
| All Long Term | 17,670 | 17,670 | 95,283 | (122,8... | (16,5... | 34,184 | 15,146 | 100.00 | | 14,774 | 100.00 | | 21,357 | 47,914 | 45 |

Drill-down View Chart

THE LEAST EXPENSIVE U.S. CITIES FOR RETIREES

7. Lubbock, Texas

- Total annual expenditures: \$42,111
- Percent of seniors: 11.5%
- Livability score: 76
- Median home value: \$135,100
- Taxes: Texas has no state income tax, so Social Security and other retirement income is not taxed.

Y'all come!

<https://www.thestreet.com/personal-finance/real-estate/least-expensive-us-cities-for-retirees-14956443>

ON THE OTHER HAND...DEPRESSING

Florida is the No. 1 state for fraud and the No. 4 for identity theft. Florida was the top state for formal reports of fraud to the federal government in 2018. Floridians made about 205,400 fraud reports last year, amounting to an average loss of \$400.

<https://www.floridatrend.com/article/26849/wednesdays-afternoon-update>

MOUTH AGAPE FROZEN

Also balderdash and horsepucky!

From *InvestmentNews*:

SEC commissioner Hester Peirce said the proposal to raise advice requirements for brokers will result in a standard for them that is stronger than the fiduciary duty investment advisers must meet.

“We have this new standard, which is something more than suitability,” Ms. Peirce said at an Institute for Portfolio Alternatives conference in Washington on Tuesday. “When you lay it side-to-side against the fiduciary standard, I think one could argue that it’s a stronger standard because it does require mitigation or elimination of conflicts in a way the fiduciary standard does not.”

I won’t bother to detail what insulting nonsense this is, but I would be happy to chat with anyone who is interested. Alternatively, ask any knowledgeable attorney how the “new suitability” standard can possibly be stronger than the RIA standard of the Investment Advisers Act of 1940.

It obviously begs the question: if it is indeed a stronger standard, why does the brokerage industry spend millions of dollars trying to prevent the enactment of a fiduciary standard? Why not just make brokers subject to the ‘40 Act? A cheap and simple solution.

<https://www.investmentnews.com/article/20190508/FREE/190509930/sec-commissioner-hester-peirce-says-reg-bi-is-stronger-than>

SAY IT ISN’T SO!

Classic Board Game Monopoly Gets a Modern Makeover Using Digital Technology to Go Cashless

- Hasbro created a version that uses digital assistant technology like Amazon Echo.
- The technology is set to make cheating in the board game a thing of the past.
- Mr. Monopoly will be a voice-activated banker, broadcast from a smart speaker.
- Playing pieces will each have a button so the players can activate transactions.

Cashless??!! That’s not Monopoly!

<https://www.dailymail.co.uk/news/article-7177397/Classic-board-game-Monopoly-gets-modern-makeover-using-digital-technology-CASHLESS.html>

MAKING MONKEYS OUT OF SOME INVESTING GURUS*

More picking on active managers reported in the Wall Street Journal:

No animals were harmed in this financial experiment, but some human egos were bruised...

The results were brutal. Heard columnists, not monkeys, threw the darts at newspaper stock listings.... The columnists' eight long and two short picks beat the pros' selections by a stinging 22 percentage points in the year through April 22. Only 4 of 12 of the Sohn picks even outperformed the S&P 500.

*Wall Street's best and brightest investors participate in this unique, "must attend" event to share their expertise with an audience of more than 3,000 people, comprised of portfolio managers, asset allocators and private investors. Most speakers manage large proprietary investment portfolios that have outperformed the market for many years and do not share their insights in any public forum, but they volunteer their time to The Sohn Investment Conference for the benefit of The Foundation.

<https://www.wsj.com/articles/making-monkeys-out-of-the-sohn-investing-gurus-11557115260>

WHO KNEW?

From *Forbes*:

Those oh-so-handy USB power charging stations in the airport may come with a cost you can't see. Cybercriminals can modify those USB connections to install malware on your phone or download data without your knowledge.

"Plugging into a public USB port is kind of like finding a toothbrush on the side of the road and deciding to stick it in your mouth. You have no idea where that thing has been," says Caleb Barlow, Vice President of X-Force Threat Intelligence at IBM Security. "And remember that that USB port can pass data."

It's much safer to bring your regular charger along and plug it into a wall outlet or, alternatively, bring a portable power bank to recharge your phone when you're low on bars.

<https://www.forbes.com/sites/suzannerowankelleher/2019/05/21/why-you-should-never-use-airport-usb-charging-stations/#4d7456495955>

INVESTORS SEEM TO BE CATCHING ON

From Morningstar:

ESTIMATED NET FLOW OF FUNDS - APRIL 2019 (in \$ Millions)

| | Active | Passive | Net Movement from Active to Passive |
|--------------|---------|---------|---|
| Vanguard | -827 | 681 | 1,508 |
| Fidelity | 2,868 | 30,838 | 27,970 |
| T.Rowe Price | -1,289 | -271 | 1,018 |
| JP Morgan | -970 | -38 | 932 |
| | | | 0 |
| US Equity | -22,158 | 19,731 | 41,889 |

<https://fundflows.morningstar.com/fundflows/marketsummary.aspx>

MORE KATIE

Our partner Katie continues to learn about Lubbock infrastructure. She got to drive the airport fire truck, shoot the 19-inch hose and shoot a Taser at the police department. (“Luckily my suspect was cardboard and not moving!”)



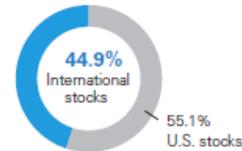
SOME GOOD ADVICE FROM VANGUARD

MARKET PERSPECTIVES

Embracing a global stock market

U.S. stocks have significantly outperformed international stocks in recent years. And U.S.-based multinationals are major players in the world economy. Does that make international stock diversification unnecessary? Not at all.

International stocks represent 44.9% of the global market—a figure too large to ignore. So by owning international stock investments, you can diversify your portfolio and take advantage of opportunities by leading companies in emerging and other developed stock markets.



Sources: Thomson Reuters Datastream, FactSet, and MSCI, as of September 30, 2018.

Three reasons to invest internationally:

Changing Market Leadership

Trailing 12-month return differential between U.S. and non-U.S. stocks

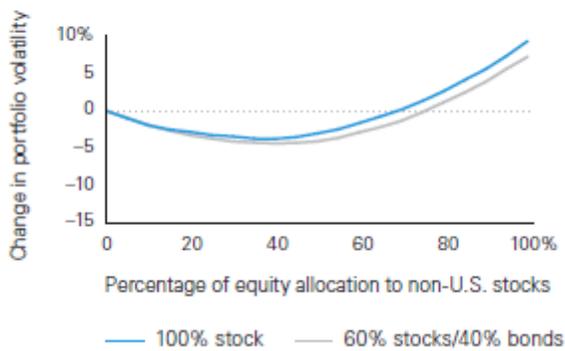


Positive International Outlook



Volatility Reduction

Ten-year expected reduction in market volatility—
United States



<https://advisors.vanguard.com/iwe/pdf/FAWHYINT.pdf>

GUESS WHO'S OLDER THAN DIRT

17 out of 17!

Take the **"OLDER THAN DIRT"** quiz
HOW MANY DO YOU REMEMBER?

1. Drive in Movie Theaters
2. Candy Cigarettes
3. 45 RPM Records
4. Party Telephone Lines
5. Soda Pop Machines with Glass Bottles
6. Butch Wax
7. Studebakers
8. Blackjack Gum
9. Home Economics Class in School
10. Metal Lunchboxes
11. Books with Records
12. Boone's Farm
13. Metal Ice Cube Trays
14. Roller Skate Keys
15. Home Mild Delivery in Glass Bottles
16. Wax Coke Bottle Candy

IF YOU REMEMBER 0 TO 5 - YOU ARE A WHIPPERSNAPPER
IF YOU REMEMBER 6 TO 10 - YOU ARE GETTING THERE
IF YOU REMEMBER 11 TO 17 - YOU ARE **OLDER THAN DIRT!**

AND IF I HAD ANY DOUBT

From *The Hollywood Reporter*:

It's not just a game for the 250 million players who are eschewing traditional social media, Netflix and other leisure activities in favor of community events like Marshmello's virtual concert.

Fortnite isn't just a game—it's also social media. So says a study from National Research Group, which provides a telling snapshot of the new attention economy. Fortnite players spend more of their free time logging into the battle royale game than they do scrolling through Facebook and Instagram or streaming on Netflix and YouTube.

In the two years since its July 2017 launch, Fortnite has grown into a global phenomenon with more than 250 million active players (82 percent under age 35) and \$2.4 billion in annual revenue. Netflix CEO Reed Hastings was onto something when he noted in January that the streamer "competes (and loses) more with Fortnite than with HBO." According to NRG, Fortnite players spend 21 percent of their free time with the game.

<https://www.hollywoodreporter.com/news/fortnite-eclipses-facebook-instagram-as-tweens-preferred-social-platform-1217335>

And I've never even heard of Fortnite! I'm definitely older than dirt!

BUFFETT ON GOLD

From *Investment Advisor*:

Buffett made his first investment, of \$114.75, in 1942. In a no-fee S&P 500 index fund with dividends reinvested, that money would have grown to \$606,811. The same amount invested in 3¼ ounces of gold would now be worth about \$4,200. That's "less than 1% of what would have been realized from a simple unmanaged investment in American business," says Buffett. "The magical metal was no match for the American mettle."

BEWARE

From *CNN*:

If you get a call from an unfamiliar number that rings once and hangs up, don't call back. The Federal Communications Commission is warning people about a new phone scam, which they're calling the "one ring" or Wangiri scam. (Wangiri is Japanese for "one ring and drop.")

The scam works like this: A scammer places a robocall to a number and hangs up after one or two rings. They may call back several times. The idea is to get the caller to call the number back. When they do, the caller is prompted to pay long distance fees to connect the call, fees that are usually paid in part to the scammer.

<https://www.cnn.com/2019/05/07/us/fcc-robocall-scheme-scam-warning-trnd/index.html>

WOW!!

The Indian Army says it found yeti footprints in the Himalayas. Stay tuned—the Loch Ness monster and Golden Asteroids are next.



The screenshot shows an NBC News article. The headline is "Indian army says it found yeti footprints in the Himalayas". The sub-headline reads: "Mount Makalu is the world's fifth highest mountain and is located about 12 miles south of Mount Everest." The date is "4/30/2019 9:55 AM". The author is "Caroline Radnofsky". The article text includes: "The Indian army says it has discovered footprints in the Himalayas that appear to belong to a yeti, known in the U.S. as bigfoot or the abominable snowman. Measuring 32 inches by 15 inches, they were found near Mount Makalu base camp on April 9, military officials posted on Twitter late Monday. A spokesman for the country's defense ministry told NBC News on Tuesday that photographs taken by the army's mountaineering expedition team had been passed on to 'the scientific community' for verification." There are two images: one showing a line of footprints in the snow and another showing a person in a red suit. A quote from Tarun Vijay is also present: "Tarun Vijay, a former Indian lawmaker, tweeted his congratulations. However, he cautioned against describing the yeti as a 'beast.' He added: 'Show respect for them.'"

<https://www.nbcnews.com/news/world/indian-army-says-it-found-yeti-footprints-himalayas-n999951>

PLACES TO GO

DEPARTURES – CITY GUIDES

<https://www.departures.com/city-guides/barcelona>

<https://www.departures.com/city-guides/paris>

<https://www.departures.com/city-guides/london>

<https://www.departures.com/city-guides/new-york-city>

<https://www.departures.com/city-guides/rome>

<https://www.departures.com/city-guides/lisbon>

<https://www.departures.com/city-guides/tel-aviv>

SOME GOOD NEWS

From *Wealth Management*.

N.J. Governor Vetoes Bill Saying Insurance Agents Are Not Fiduciaries

Gov. Phil Murphy said the bill runs counter to the state's efforts to improve consumer protections, including its recent fiduciary rule proposal for financial advisors.

New Jersey Gov. Phil Murphy has been an outspoken proponent of the state's proposed fiduciary rule, which he called "some of the strongest investor protections in the nation." So when a state bill was passed that would eliminate a fiduciary standard for insurance producers, he, naturally, vetoed it...

He recommended the legislature remove section 1 of the bill, which "prohibits a cause of action against an insurance producer arising from transactions involving property and casualty insurance or a health benefits plan where the cause of action is based on a fiduciary duty." He believes that will also leave it open for lawmakers to impose a fiduciary duty on insurance producers.

He also suggests the removal of the third section of the bill, which would require the insurance agent to notify clients that information about their compensation is available, rather than disclose that information to the client directly. And they'd have to include only information about compensation that's based on a percentage of the premium.

A recently proposed rule by the state's Bureau of Securities would require all financial advisors registered in the state to act as fiduciaries, making New Jersey one of the first states to propose a uniform fiduciary standard for all financial services professionals.

The rule would apply to recommendations on investments; opening or transferring assets into any kind of account; and the purchase, sale or exchange of any security. A broker or advisor has to make "reasonable inquiry" in the best interest of their client, and any recommendations offered cannot be made with regard to a financial interest of the broker, advisor or any other third party.

The SEC has said it intends to release a final rule on its Regulation Best Interest this fall. This regulation is expected to require more robust disclosure procedures to ensure that brokers are acting in the "best interest" of a client, though critics contend this would fall short of the fiduciary duty demanded of investment advisors; New Jersey's rule stressed that disclosing conflicts alone would not suffice in protecting investors."

<https://www.wealthmanagement.com/regulation-compliance/nj-governor-vetoes-bill-saying-insurance-agents-are-not-fiduciaries>

COOL TIP

From One Mile at a Time:

Using FlightAware to check inbound flight status

There's one cool hack that many people aren't aware of that makes this really easy. [FlightAware](#) is a flight tracking website, and it will also show you where your plane is coming from. Just enter the flight number for your journey.

Then when you see the map for your flight, on the right side you should see a section that says "track inbound plane." Just click that, and you'll see where the plane is coming from.

<https://onemileatatime.com/track-inbound-plane/>

DEPRESSING

Journal of Financial Planning Stat Bank:

65...Percent of people surveyed who said they mistrust the financial services industry to some degree.

2...Percent of people surveyed who said they trust financial professionals "a lot." (We work hard to be in that 2%.)

21...Percent of people who understand the difference between a planner who is a fiduciary and one who is not. (I hope regular readers of my *NewsLetter* know the difference!)

50...Percent of investors who work with a financial advisor who know for certain their advisor is a fiduciary. (I hope my readers and our clients know that **we** are fiduciaries.)

YOU READ IT HERE FIRST!



VIRAL - Published 1 day ago

Loch Ness Monster 'might' be real, according to new scientific study

<https://www.foxnews.com/tech/loch-ness-monster-might-be-real-according-to-new-scientific-study>

AND IF THE YETI AND LOCH NESS MONSTER DON'T GET YOU EXCITED, HERE'S AN ITEM FROM DAVID THAT MIGHT



The Golden Asteroid That Could Make Everyone on Earth a Billionaire

Whether it was the Big Bang, Midas or God himself, we don't really need to unlock the mystery of the origins of gold when we've already identified an asteroid worth \$700 quintillion in precious heavy metals.

If anything launches this metals mining space race, it will be this asteroid—Psyche 16, which is somewhere between Mars and Jupiter and carries around enough heavy metals to net every single person on the planet close to a trillion dollars.

The massive quantities of gold, iron and nickel contained in this asteroid are mind-blowing. The discovery has been made. Now it's a question of probing it.

NASA plans to do just that, beginning in 2022.

<https://www.rt.com/business/462703-golden-asteroid-everyone-billionaire/>

SNAKE OIL SELLS

My partner Lane shared an interesting marketing piece with me.

Investment Strategies
Defensive Alpha

Our Defensive Alpha portfolios aim to reduce market drawdowns without sacrificing participation in rising markets. These strategies seek to invest in a global allocation of market blend indices during rising markets, but attempt to exit to defensive, low volatility stocks in the early stages of market declines. When markets rebound, the portfolios are expected to return to a growth posture.

Unconstrained Tactical

Our Unconstrained Tactical strategies attempt to track global allocations of market blend indices during rising markets, but seek to exit to cash or more stable fixed income assets as prices start to move lower. When markets begin to rebound, the portfolios attempt to return to fully invested positions. Because these strategies seek to exit to cash, they are a means of attempting to gain access to above inflation returns with robust loss avoidance.

I'm obviously a massive skeptic. The key words are attempts and seeks—"attempts to exit" and "attempts to track" and "attempts to return" and "attempting to gain" and "seeks to exit." With an eye on possible customer complaints, there are no promises here, but lots of **attempting** and **seeking**.

In the last few hundred years, no manager has done this successfully over long periods of time, but I guess hope springs eternal. We're still passionate believers that successful investing is not *timing the market* but *time in the market*.

COOL HISTORY

The first Waltons store opened in 1962



William Harley and Arthur Davidson, 1914

The Founders of Harley Davidson Motorcycles



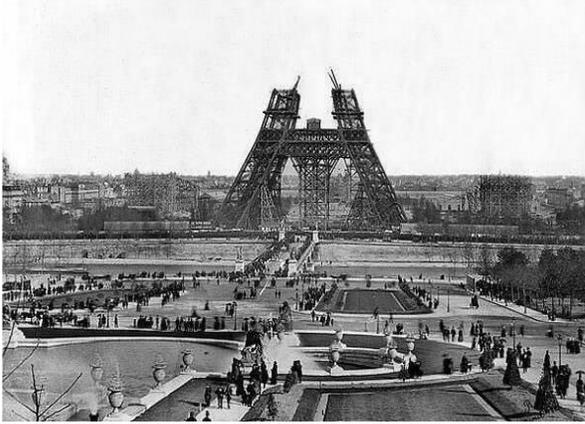
Golden Gate bridge construction - 1937



Pablo Picasso & Brigitte Bardot - 1956



Construction of Eiffel Tower in 1880



Frank Sinatra asks Lou Gehrig for an autograph in 1939



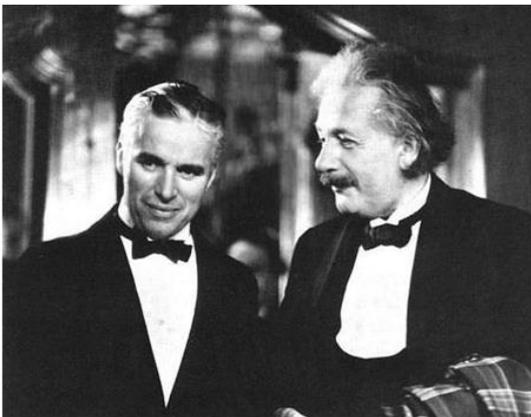
The original Star Wars cast seen just before filming



Queen Elizabeth during her WWII service.



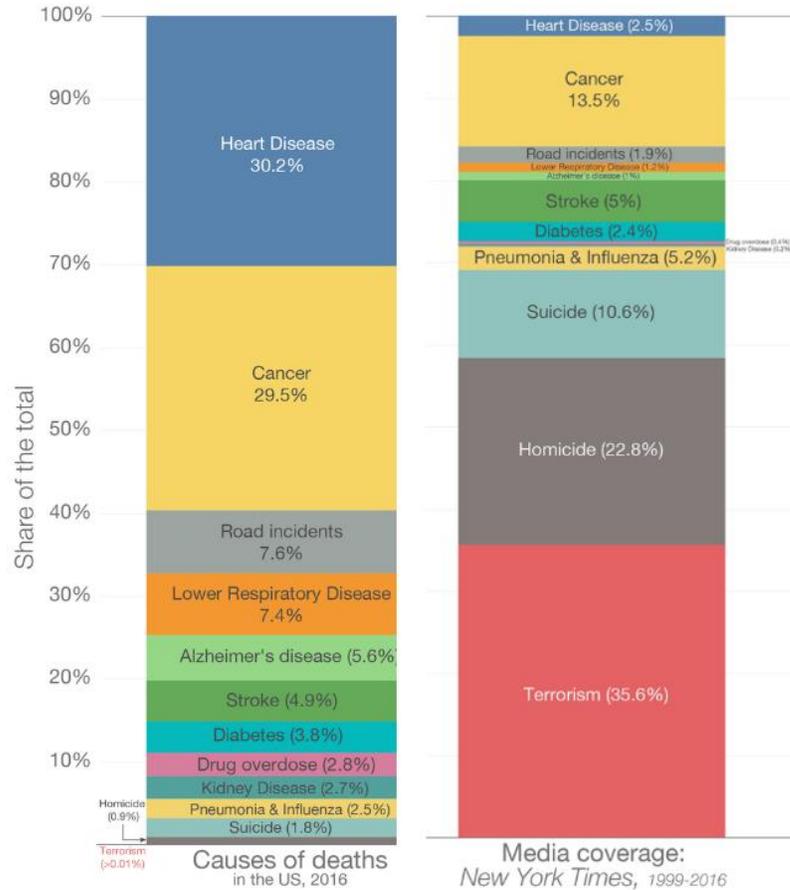
Charlie Chaplin and Albert Einstein



Steve Jobs sitting with Bill Gates discussing the future of computing in 1991.



PERCEPTION vs. REALITY:
Causes of Death in the United States



<https://i.redd.it/0kvz7p5l1f131.png>

NOT SURE IF I COULD BRING MYSELF TO EAT THEM—MAYBE IF IT WAS A BOTTLE OF WINE
Two melons sold at a Japanese auction for \$45,000.



<https://www.foxnews.com/food-drink/two-melons-sold-at-japanese-auction-for-45k-to-first-time-bidder-report>

CAVEAT EMPTOR

From Jason Zweig of the *Wall Street Journal*:

A New Rule Won't Make Your Broker an Angel

All brokers and financial advisers have conflicts of interest. New regulations, no matter how well intended, can't change that.

Next week, the Securities and Exchange Commission is expected to approve a rule that will require brokers to act in the best interest of their customers—rather than their own wallets—when offering investment advice. That's good, so far as it goes.

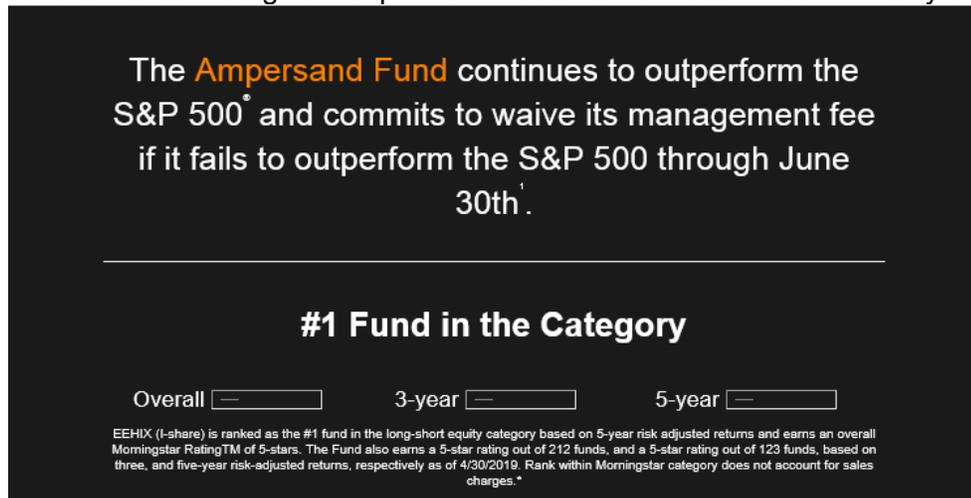
It probably won't go far enough, however. The new rule is also likely to lead many investors to drop their guard, in the misguided belief their brokers now can do no wrong. And it may create a marketing bonanza for brokers and investment advisers...

The most immediate result, I expect, will be to weaponize the marketing pitch that brokers have used for so long: "Trust me." The corollary now will be: "The U.S. government requires me to act in your best interest." That new clincher will act like kryptonite on the skepticism or objections that many customers otherwise might have mustered."

<https://www.wsj.com/articles/a-new-rule-wont-make-your-broker-an-angel-11559313036>

DO YOUR HOMEWORK—A SHORT LESSON IN DUE DILIGENCE

I recently received an email touting the Ampersand Fund. The "headline" was certainly impressive.



The **Ampersand Fund** continues to outperform the S&P 500^{*} and commits to waive its management fee if it fails to outperform the S&P 500 through June 30th¹.

#1 Fund in the Category

Overall 3-year 5-year

EEHIX (I-share) is ranked as the #1 fund in the long-short equity category based on 5-year risk adjusted returns and earns an overall Morningstar Rating™ of 5-stars. The Fund also earns a 5-star rating out of 212 funds, and a 5-star rating out of 123 funds, based on three, and five-year risk-adjusted returns, respectively as of 4/30/2019. Rank within Morningstar category does not account for sales charges.*

Looking a little further, I found it was honestly labeled a Morningstar 5 Star fund.

Equinox Ampersand Strategy Fund Class I EEHIX | ★★★★★

I also found it had indeed outperformed the S&P for 5-month for 2019 through 5/31/2019.

| History (05/31/2019) | YTD |
|----------------------|-------|
| EEHIX | 15.81 |
| S&P 500 TR USD | 10.74 |

It also significantly outperformed its Morningstar category peers.



HOWEVER...

Looking even further, I found that the long-term record tells a different story. Below is the performance of the Ampersand Fund compared to the iShare S&P 500.



And on an after-tax basis, the difference is magnified.

Tax Analysis

| | 1-Mo | 3-Mo | 6-Mo | YTD | 1-Yr | 3-Yr | 5-Yr |
|------------------------------|-------|-------|-------|-------|------|-------|------|
| Pretax Return | | | | | | | |
| EEHIX | -4.52 | 8.54 | 10.96 | 15.81 | 5.70 | 9.00 | 7.89 |
| IVV | -6.36 | -0.67 | 0.73 | 10.73 | 3.75 | 11.68 | 9.61 |
| Tax-adjusted Return * | | | | | | | |
| EEHIX | -4.52 | 8.54 | 9.46 | 15.81 | 4.27 | 7.02 | 5.42 |
| IVV | -6.36 | -0.75 | 0.46 | 10.64 | 3.25 | 11.16 | 9.04 |
| % Rank in Category | 55 | 1 | 2 | 3 | 9 | 9 | 4 |
| Tax Cost Ratio | | | | | | | |
| EEHIX | — | — | — | — | 1.35 | 1.82 | 2.29 |
| IVV | — | — | — | — | 0.48 | 0.47 | 0.52 |

How about managing risk? The fund’s website says “Objective: An innovative fund solution that aims to achieve returns and volatility comparable to the S&P 500® Total Return Index [that’s the IVV iShare], while seeking to avoid the full impact of downside risk.”

While it’s true that it tracks the volatility of the S&P (standard deviation), on a risk-adjusted basis (Sharpe Ratio), it fails.

| Volatility Measures EEHIX | | | | |
|---------------------------|--------|--------------------|---------|--------------|
| 3-Year | 5-Year | 10-Year | 15-Year | |
| 3-Year Trailing | | Standard Deviation | Return | Sharpe Ratio |
| EEHIX | | 11.57 | 9.00 | 0.68 |
| IVV | | 11.69 | 11.68 | 0.88 |

| Volatility Measures EEHIX | | | | |
|---------------------------|--------|--------------------|---------|--------------|
| 3-Year | 5-Year | 10-Year | 15-Year | |
| 5-Year Trailing | | Standard Deviation | Return | Sharpe Ratio |
| EEHIX | | 10.85 | 7.89 | 0.67 |
| IVV | | 11.72 | 9.61 | 0.77 |

And as for “avoiding the full impact of downside risk,” not so much so during the most recent correction.



The moral? Caveat emptor. Do your homework. Don’t make your investments based on Morningstar Star “Stars” or clever ads.

MORE “WHO KNEW?”

From *USA Today*:

States With the Most UFO Sightings: Vermont Leads the Way

UFO reporting levels vary by state. In states with cold winters, sightings increase dramatically during summer months, when more residents are spending their leisure time outdoors. The five states with the most reported UFO sightings per 100,000 people are all northern states, and three of them—Vermont, New Hampshire and Maine—are located in New England. By comparison, UFO reports don’t fluctuate much during the year in southern states, where weather and daylight conditions don’t vary as much.

<https://www.usatoday.com/story/news/nation/2019/06/19/states-with-the-most-ufo-sightings/39306977/>



EVENSKY & KATZ / FOLDES FINANCIAL
WEALTH MANAGEMENT

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MORE AMAZING PICTURES

From my friend Peter:



Her Majesty and Prince Philip – same brooch, same pearl



Mahatma Gandhi dancing



Alfred Hitchcock, 1920's



Winston Churchill, 1895



Albert Einstein



Paul Newman, served in the Pacific in WW2



John Wayne, 1930 (aged 23)



Edgar Allan Poe poses with Abraham Lincoln

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Mark Twain, aged 15, 1850



Confederate general Robert E. Lee.



Elizabeth Taylor... this could have been X rated.



Mother Teresa, What a find...!!!



Paul Gauguin



Ernest Hemingway as an American Red Cross volunteer



Hans Christian Anderson

FOR THE ACADEMIC-MINDED

This is admittedly a bit heavy, but those of you who are familiar with my writing know I'm a passionate fan of behavioral economics, as I believe it explains most of the issues our clients deal with in investing. This is such a good example that I thought an excerpt would be worth sharing.

How Active Management Survives

J. B. Heaton, Ginger L. Pennington; *Financial Planning Review*

Abstract

There is much evidence that passive equity strategies dominate active equity management, but many investors remain committed to active investing despite its poor relative performance. We explore the behavioral-economic hypothesis that investors fall prey to the conjunction fallacy, believing good returns are more likely if investment is accompanied by hard work. This is an especially plausible manifestation of the conjunction fallacy, because in most areas of life, hard work leads to greater success than laziness. Our internet survey results show that from 30% to over 60% of higher-income, over-30 individuals fall prey to the conjunction fallacy in this context, raising significant questions for law and regulatory policy, including whether actively managed equity products should carry warnings, at least for retail investors. [They don't mince words.]

Belief in a "just world" is a second psychological factor that may explain the strong subjective appeal of a causal association between financial success and active investment. The "just world hypothesis" asserts that people have a strong desire to view the world as a fair, predictable place—a place in which a person's merit and her fate are closely intertwined, and where hard work can be expected to yield just rewards (Lerner, 1980). While a large amount of research on the just world hypothesis focuses on harmful societal effects of this belief (that is, victim blaming), other work examines the influence of just world beliefs on decision-making. Decision makers with a strong belief in the association between hard work and success tend to engage in a range of counter-productive behaviors, spending excessive amounts of time reaching a decision and distorting perceptions of alternatives in a way that unnecessarily complicates choice (Schrift et al., 2016).

The psychological tendency to believe in a just world influences investors on multiple levels...it encourages investors to overcomplicate what should be a relatively simple decision problem—believing that a more complex investment scheme is necessary to achieve good outcomes. This last point may go far in explaining the efforts to which some leading hedge funds go to give an appearance of hiring the "best and the brightest" even when their investment results are inconsistent with the value of that practice.

The confluence of illusions of control and just world beliefs probably leads investors to accept the idea of a causal link between traders' work and financial success. When asked to assess the likelihood of achieving financial gains in the stock market, investors employ these feelings as relevant information, judging success to be more likely with an active management. Using very brief surveys, we presented approximately 1,000 adults with a choice judgment task to test for the emergence of the conjunctive fallacy. Similar to Tversky and Kahneman's heart attack problem,* we expected respondents to find the joint outcome more probable, due to feelings of fluency invoked by the assumed causal relationship...

The most straightforward test of our hypothesis was conducted with a sample of 1,004 individuals, roughly 57% male (n = 572) and 43% female (n = 431). All participants were above the age of 30 (roughly 34% between the ages of 45 and 60 and 41% over age 60), with household incomes in excess of \$100,000 (20% of the sample earned over \$200,000/year). This is the first question presented to that sample:

ABC Fund invests in common stocks listed on United States stock exchanges. Which is more likely?

- (1) ABC Fund will earn a good return this year for its investors.
- (2) ABC Fund will earn a good return this year for its investors and ABC Fund employs investment analysts who work hard to identify the best stocks for ABC Fund to invest in.

This question evoked a strong manifestation of the conjunction fallacy, with 62.8% selecting choice (2). This rate is on par with the magnitude of bias found in past studies using this problem structure. By comparison, the “heart attack” problem in Tversky and Kahneman (1983) produced a 58% error rate.*

*The conjunction fallacy emerges even in contexts that are not amenable to that explanation, namely, those in which little to no background information has been provided to participants. In one such demonstration, Tversky and Kahneman asked participants to consider the likelihood of a randomly selected adult male having suffered a heart attack. Participants were instructed to choose which statement was more likely:

- (1) This person has had one or more heart attacks.
- (2) This person has had one or more heart attacks and is over 55 years of age.

The majority of respondents selected the second option. Despite choice (1) being logically more probable, the addition of age-related information to choice (2) lends it an air of enhanced plausibility. This is because choice (2) suggests a causal explanation that is consistent with both participants’ prior knowledge and objective reality (that is, the risk of heart attack does, in fact, increase with age). Qualitatively, choice (2) “feels” more likely to participants.

You can read the whole paper here: <https://onlinelibrary.wiley.com/doi/10.1002/cfp2.1031>

Now go back and look at the graph **PERCEPTION vs. REALITY: Causes of Death in the United States** for another example of Behavioral Economics.

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



Harold Evensky
Chairman
Evensky & Katz / Foldes Financial Wealth Management

Important Disclosure

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