

Dear Reader:

FOREWARNED IS FOREARMED

From an interview at the end of 2018 with Greg Davis, Vanguard's Chief Investment Officer:

"The bull market in stocks that began in many parts of the world in early 2009 is nearly a decade old. Should investors adjust their expectations?"

"Based on our fair-valuation metrics, we expect globally diversified stock portfolios to deliver annualized returns in the 4.5%–6.5% range over the next ten years. That's roughly half of their long-term historical average return. And it's roughly a third of their annualized gains since the depths of the financial crisis a decade ago. So, yes, some investors probably are expecting too much from stocks.

"Below our headline expectations for global stock portfolios, which assume dollar-denominated investments, are somewhat higher forecasts for non-U.S. markets and somewhat lower forecasts for the U.S. market. We're a little more optimistic about stocks outside the U.S. because their valuations are lower."

And one more observation from an interview with *WealthManagement.com*:

WM: Do active managers have an edge in volatile markets?

GD: That's always been the claim, but we haven't seen the data really bear that out.

His observations are consistent with our expectations.

https://advisors.vanguard.com/VGApp/iip/site/advisor/researchcommentary/article/IWE_InvComExpctnsIntrstRtsAndBlkChn?cmpgn=SM:FAS:POST:121118:TW:XX:XX:XX:sf203300761&sf203300761=1

<https://www.wealthmanagement.com/etfs/inside-etfs-qa-vanguard-s-gregory-davis>

A HEAD-SCRATCHER

SEC's latest on fiduciary: Advisers can customize individual client agreements

Disclosure and informed consent can limit services, allow third-party pay

"When Securities and Exchange Commission chairman Jay Clayton asserted at a congressional hearing last week that investment advisers can 'contract around' their obligation to act in a client's best interests, it caused some head scratching in the adviser community.

In response to being pressed by Sen. Elizabeth Warren, D-Mass., about the SEC’s investment advice reform proposal, Mr. Clayton said: ‘Advisers are allowed to contract around this standard; it’s not well known. This is something we want people to understand.’”

<https://www.investmentnews.com/article/20181219/FREE/181219913/secs-latest-on-fiduciary-advisers-can-customize-individual-client>

A head-scratcher indeed. All the more reason to be sure your financial advisor signs the OATH. See below in the “FOR SHAME” note for a copy.

HEAD-SCRATCHER FOLLOW-UP

What makes this proposal even more incredible are the results of a RAND study commissioned by the SEC Office of the Investor Advocate and published in its 2018 Report on Activities. These were some of their observations:

To understand investor understanding of the term “best interest,” we asked respondents “What do you think it means if a financial professional is required to act in your “best interest?” We offered respondents eight attributes to which they could respond yes, no, or I don’t know. Panel 3 of the infographic on the previous page summarizes three of the responses we want to highlight for the individuals that reported currently using a financial professional for investment advice. Current advice users overwhelmingly believed (86 percent) that a professional required to act in their best interest monitors their accounts on an ongoing basis. This is somewhat of a concern because the best interest standard, as proposed, will apply to broker-dealers who are not required to provide this service as part of their typical offerings. The next two questions relate to cost and conflicts of interest. Seventy-three percent of current advice users believed that a professional acting in their best interest “will help me to choose the lowest cost products, all else being equal.” Sixty-one percent indicated that the professional would “avoid taking higher compensation for selling me a product when a similar but less costly product is available.”

From Panel 3:



That is, most didn’t have a clue.

Asked if financial professionals acting in an investor’s “best interest” would be required to:

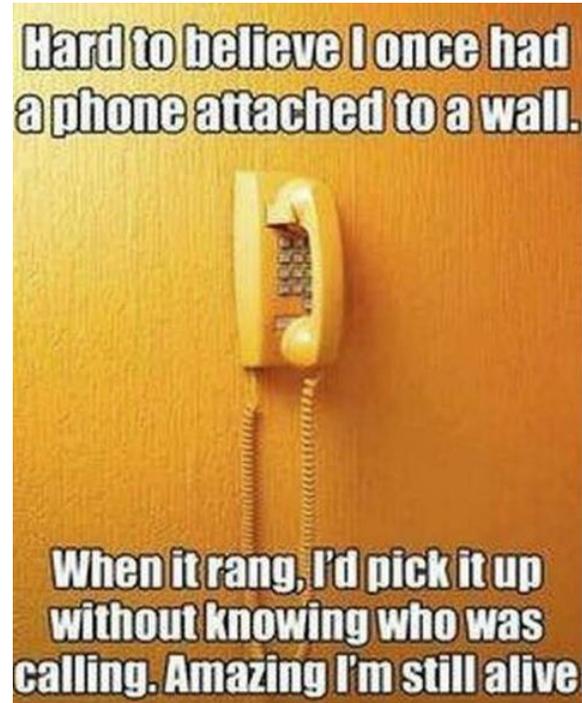
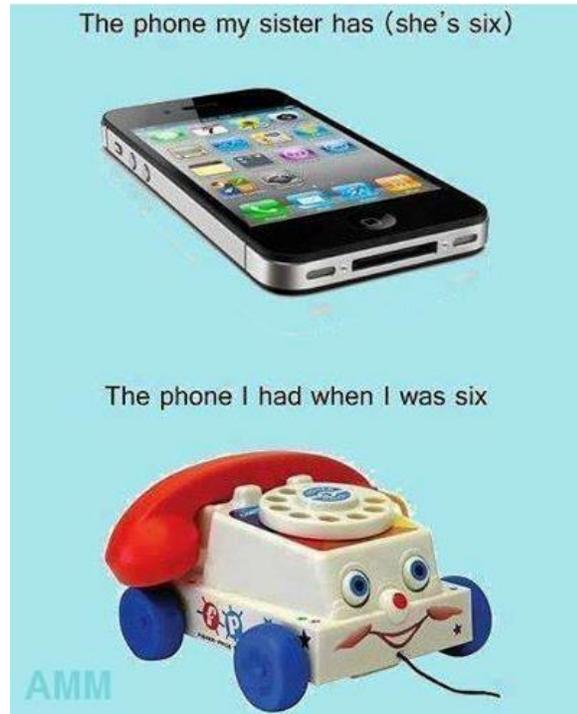


- Avoid taking higher compensation for selling one product when a similar but less costly one is available61% said yes
- Help them choose the lowest cost products, all else being equal73% said yes
- Monitor their accounts on an ongoing basis86% said yes

THESE ARE CURRENTLY NOT REQUIREMENTS FOR THOSE REGISTERED AS BROKERS

WHO REMEMBERS?

From my friend Peter

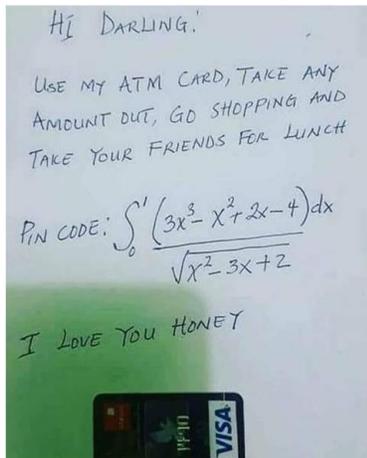




EVENSKY & KATZ / FOLDES FINANCIAL
WEALTH MANAGEMENT



FROM MY LAST ISSUE



My friend the math professor says don't try and use this PIN

"You have an integral divided by a square root, where it appears the square root is not part of the integrand. I don't see how this can provide a PIN; do you? Even if it were meant to be part of the integrand, there is still something wrong, because $x^2 - 3x + 2 = (x - 2)(x - 1)$."

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PERSPECTIVE

Some thoughtful charts prepared by my associate Michael

Long-Term Market Summary

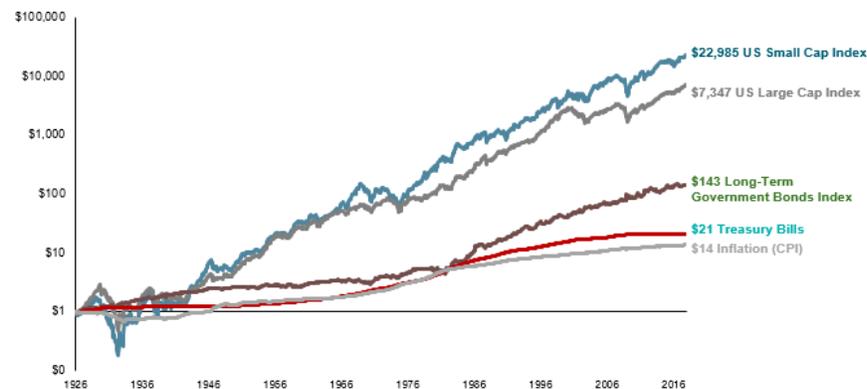
Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	-5.24%	-14.09%	-14.58%	-5.90%	0.01%	3.17%
5 Years	7.91%	0.34%	1.65%	5.28%	2.52%	4.11%
10 Years	13.18%	6.24%	8.02%	10.05%	3.48%	3.98%

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index (net div.)), Emerging Markets (MSCI Emerging Markets Index (net div.)), Global Real Estate (S&P Global REIT Index (net div.)), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-US Bond Index (hedged to USD)). S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. There Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2018, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

The Capital Markets Have Rewarded Long-Term Investors

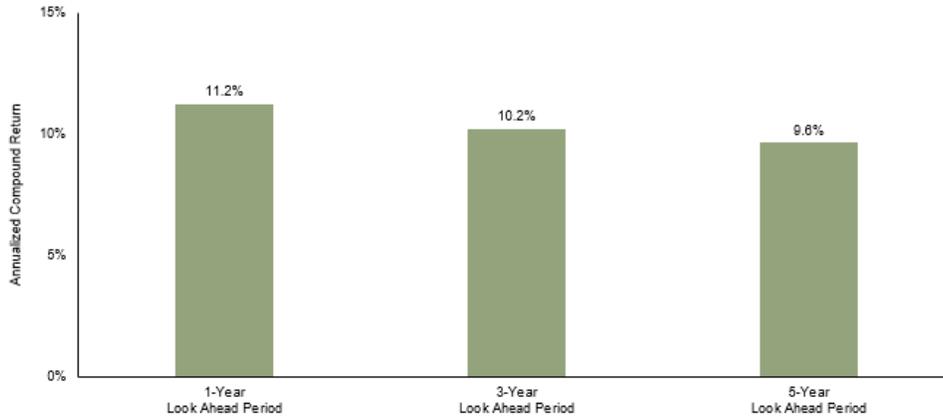
Monthly growth of wealth (\$1), 1926–2017



In US dollars. US Small Cap Index is the CRSP 5-10 Index; US Large Cap Index is the S&P 500 Index; Long-Term Government Bonds Index is 20-year US government bonds; Treasury Bills are One-Month US Treasury bills; Inflation is the Consumer Price Index. 1-Month Treasury Bills Index is the 1A SBBI US 30 Day T-Bill TR USD. Treasury Index data sourced from Boston Associates, via Morningstar Direct. CRSP data provided by the Center for Research in Security Prices, S&P data copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bonds, T-bills, and Inflation data provided by Morningstar. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

Average Annualized Returns after Market Decline of More than 10%

S&P 500, 1/1926–12/2017



Market decline of 10% is defined as a month in which cumulative return from peak is -10% or lower. Annualized compound returns are computed for the 1-, 3- and 5-year periods subsequent to a market decline of at least 10%. 1,003 observations for 1-year look-ahead, 1,005 observations for 3-year look-ahead, and 1,045 for 5-year look-ahead. 1-year, 3-year, and 5-year periods are overlapping periods. The bar chart shows the average returns for the 1-, 3- and 5-year period following a market decline of at least 10%. January 1926–Present: S&P 500 Total Returns Index. S&P data © 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. January 1926–December 1989: S&P 500 Total Return Index, Stocks, Bonds, Bills and Inflation Yearbook™, Ibbotson Associates, Chicago. For illustrative purposes only. Index is not available for direct investment; therefore, its performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results. There is always a risk that an investor may lose money. In US Dollars. Values represent the growth of \$1 invested at market close 11/30/2017 in the S&P 500 Index (total return), © 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Past performance is no guarantee of future results. Short term performance results should be considered in connection with longer term performance results. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

A History of Market Ups and Downs

S&P 500 Index total returns in USD, January 1926–December 2017

Using a 20% threshold for downturns

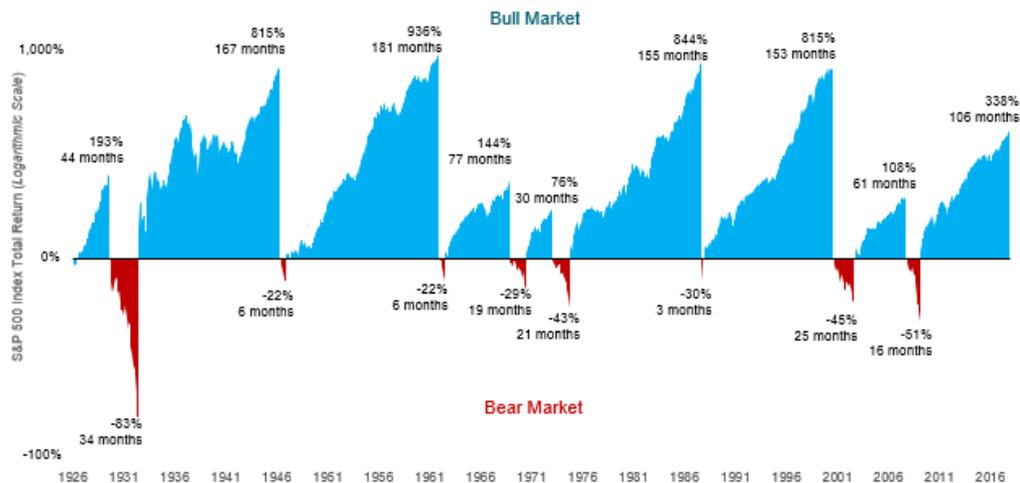


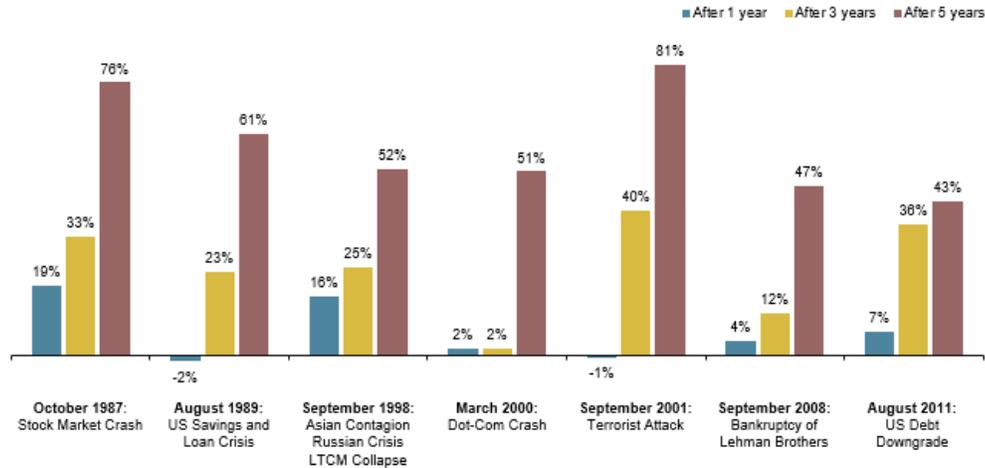
Chart end date is 12/31/2017, the last trough to peak return of 338% represents the return through December 2017.
Bear markets are defined as downturns of 20% or greater from new index highs. Bull markets are subsequent rises following the bear market trough through the next new market high. The chart shows bear markets and bull markets, the number of months they lasted and the associated cumulative performance for each market period. Results for different time periods could differ from the results shown. Past performance is no guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Source: S&P data copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

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The Market's Response to Crisis

Performance of a Balanced Strategy: 60% Stocks, 40% Bonds
Cumulative Total Return



In US dollars.
Represents cumulative total returns of a balanced strategy invested on the first day of the following calendar month of the event noted. Balanced Strategy: 12% S&P 500 Index, 12% Dimensional US Large Cap Value Index, 6% Dow Jones US Select REIT Index, 6% Dimensional International Value Index, 6% Dimensional US Small Cap Index, 6% Dimensional US Small Cap Value Index, 3% Dimensional International Small Cap Index, 2.4% Dimensional Emerging Markets Small Index, 1.4% Dimensional Emerging Markets Value Index, 1.8% Dimensional Emerging Markets Index, 10% Bloomberg Barclays Treasury Bond Index 1-5 Years, 10% FTSE World Government Bond Index 1-5 Years (hedged), 10% FTSE World Government Bond Index 1-3 Years (hedged), 10% ICE BofAML 1-Year US Treasury Note Index. Assumes monthly rebalancing. For illustrative purposes only. S&P and Dow Jones data copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. ICE BofAML Index data copyright 2018 ICE Data Indices, LLC. FTSE Fixed Income Index © 2018 FTSE Fixed Income LLC. All rights reserved. Bloomberg Barclays data provided by Bloomberg. Dimensional indices use CRSP and Compustat data.
Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Not to be construed as investment advice. Returns of model portfolios are based on back-tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance. See "Balanced Strategy Disclosure and Index Descriptions" pages in the Appendix for additional information.

Historical Performance of Premiums over Rolling Periods

US Markets

Overlapping Periods: July 1926–December 2017

MARKET beat T-BILLS



Market is Fama/French Total US Market Research Index.
T-Bills is One-Month US Treasury Bills.
There are 973 overlapping 10-year periods, 1,039 overlapping 5-year periods, and 1,087 overlapping 1-year periods.

Overlapping Periods: July 1926–December 2017

VALUE beat GROWTH



Value is Fama/French US Value Research Index.
Growth is Fama/French US Growth Research Index.
There are 973 overlapping 10-year periods, 1,039 overlapping 5-year periods, and 1,087 overlapping 1-year periods.

Overlapping Periods: June 1927–December 2017

SMALL beat LARGE



Small is Dimensional US Small Cap Index.
Large is S&P 500 Index.
There are 968 overlapping 10-year periods, 1,028 overlapping 5-year periods, and 1,076 overlapping 1-year periods.

Overlapping Periods: July 1963–December 2017

HIGH PROFITABILITY¹ beat LOW PROFITABILITY



High is Dimensional US High Profitability Index.
Low is Dimensional US Low Profitability Index.
There are 535 overlapping 10-year periods, 595 overlapping 5-year periods, and 643 overlapping 1-year periods.

In US dollars.

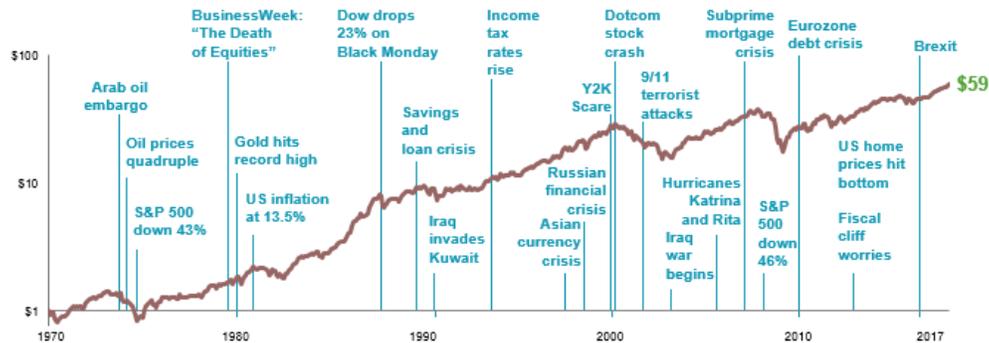
Information provided by Dimensional Fund Advisors LP.

¹ Profitability is a measure of current profitability, based on information from individual companies' income statements, scaled by book.

Based on rolling annualized returns using monthly data. Rolling multi-year periods overlap and are not independent. "One-Month Treasury Bill" is the IA BBI US 30 Day TBill TR USD, provided by Ibbotson Associates via Morningstar Direct. Dimensional Index data compiled by Dimensional. Fama/French data provided by Fama/French. S&P data copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment. Past performance is not a guarantee of future results. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP. Index descriptions available upon request.

Markets Have Rewarded Discipline

Growth of a dollar—MSCI World Index (net dividends), 1970–2017



A disciplined investor looks beyond the concerns of today to the long-term growth potential of markets.

In US dollars. MSCI data © MSCI 2016, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

2

YES!

I checked with my little brother (the Economics Professor at Syracuse) as he has the same porous memory as I do and we agreed we must be brilliant.

“Neuroscientists Say Your Forgetfulness Is A Sign Of Extraordinary Intelligence”

https://www.opednews.com/Quicklink/Neuroscientists-Say-Your-F-in-Sci_Tech-Brain_Intelligence_Intelligence--Iq_Memory-181202-188.html

WOW!

“The U.S. Just Became a Net Oil Exporter for the First Time in 75 Years”

“We are becoming the dominant energy power in the world,” said Michael Lynch, president of Strategic Energy & Economic Research. “But, because the change is gradual over time, I don’t think it’s going to cause a huge revolution, but you do have to think that OPEC is going to have to take that into account when they think about cutting.”

“The shale revolution has transformed oil wildcatters into billionaires and the U.S. into the world’s largest petroleum producer, surpassing Russia and Saudi Arabia. The power of OPEC has been diminished, undercutting one of the major geopolitical forces of the last half century.”

<https://www.bloomberg.com/news/articles/2018-12-06/u-s-becomes-a-net-oil-exporter-for-the-first-time-in-75-years>

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I KNOW YOU WANT TO KNOW

Top dog names for 2018 from NPR

FEMALES		MALES	
#1	Bella		Max
#2	Lucy		Charlie
#3	Luna		Cooper
#4	Daisy		Buddy
#5	Lola		Jack

https://www.npr.org/2018/12/09/674596049/origins-of-the-top-dog-names-of-2018-pop-culture-brunch-and-baby-names?utm_medium=RSS&utm_campaign=news

MORE NOISE NOT NEWS

New York Times, Friday, December 7, 4:38 a.m.

“The arrest over the weekend of a top executive at Huawei, the Chinese telecommunications giant, has complicated President Trump’s trade talks with Beijing and drawn sharp protests from the Chinese government....

Side effects: The news contributed to whiplash for global markets on Thursday, **but things seem more stable today.**” [Emphasis mine]

thestreet, Friday, December 7

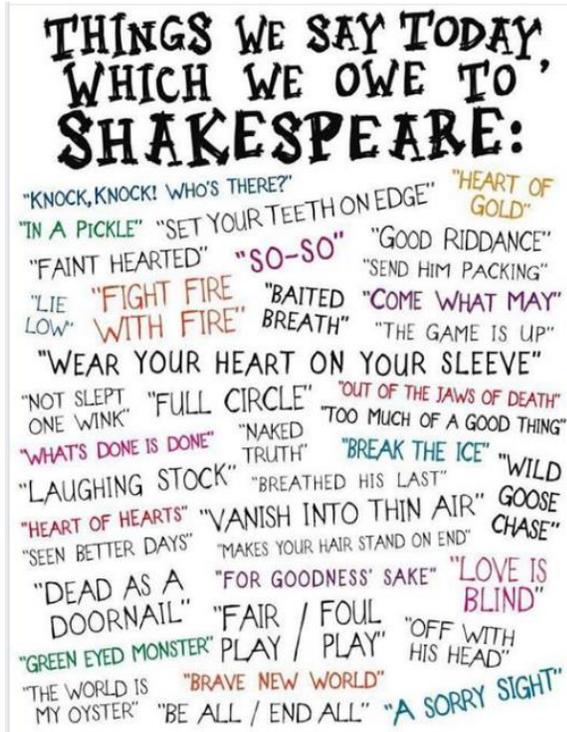
BREAKING NEWS 11:08 am

Dow's Losses Accelerate, Blue-Chip Index Tumbles More Than 300 Points
Dow Falls 500 Points as Earlier Rally Fizzles **CLOSING** – DOW off 558.72



WHO KNEW?

From Snaps



GOOD ADVICE FROM THE *NEW YORK TIMES*

What Should You Do About a Falling Stock Market? Nothing

By NEIL IRWIN

If you had a perfect ability to predict how far the market would fall and when it would bottom out, it would make sense to move money in and out. But you do not.

FOR SHAME

From *WealthManagement.com*

“Today, you can invest in the Vanguard 500 Index Fund for as low as 4 basis points. But some legacy index funds—which track the exact same index—charge much, much higher fees than that, and investment gurus say they are simply unjustifiable.”

“The Rydex S&P 500 Index Fund—often considered the poster child of high-fee index funds—charges a net expense ratio of 2.33 percent. That includes a management fee of 75 basis points and 1 percent 12b-1 fee, a reward to the advisor for selling the fund. But there are more than a dozen similar, plain vanilla funds—also tracking the S&P—with net expense ratios over 1 percent. Federated Investors, State Farm and Invesco are just a few providers.”

The Worst Offenders					
Here are the 10 most expensive long-only index funds tracking the S&P 500.					
Fund Name	Ticker	Assets	Prospectus Net Expense Ratio (%)	Management Fee (%)	12b-1 Fee (%)
Rydex S&P 500 Class C	RYSYX	\$187,792,530	2.33	0.75	1
Federated Max-Cap Index Class C	MXCCX	\$332,271,361	1.44	0.3	0.75
State Farm S&P 500 Index Class B	SNPBX	\$1,531,000,000	1.34	0.1	0.95
Invesco S&P 500 Index Class C	SPICX	\$1,271,524,138	1.31	0.12	0.98
DWS S&P 500 Index Class C	SXPXC	\$998,609,320	1.3	0.05	0.99
Principal Large Cap S&P 500 Index Class C	PLICX	\$5,732,309,315	1.3	0.15	1
Nationwide S&P 500 Index Class C	GRMCX	\$3,010,772,287	1.24	0.12	1
Wells Fargo Index Class C	WFINX	\$1,526,587,619	1.2	0.14	0.75
PGIM QMA Stock Index Class C	PSICX	\$1,001,150,442	1.18	0.15	1
JPMorgan Equity Index Class C	OEICX	\$4,068,112,480	1.15	0.04	0.75

Source: Morningstar

Note: Data as of Oct. 31; these are widely held, market-cap-weighted, long only funds that track the S&P 500. It does not include funds that go short or use leverage.

It seems *Barron's* reached the same conclusion in “*Getting Fleeced on Fund Fees.*”

“Investors might think index funds are a great way to capture market returns. Most index funds charge practically nothing: One of the largest, Vanguard Total Stock, charges just 0.04% a year; the average stock index fund’s expense ratio is down to 0.09%, less than a dime for every \$100 invested. That has dropped from 0.27% in 2000, according to the Investment Company Institute, the fund industry’s lobbying group.

“Yet the industry’s method of calculating fees, on an asset-weighted basis, obscures a surprising fact: Hundreds of billions of dollars are sitting in share classes of index mutual funds that charge well above 1% in annual fees. Many of these funds do nothing more than track broad market

benchmarks like the S&P 500. Yet their fees are on par with actively managed funds and, in some cases, even exceed them, topping 1.6% a year.”

“Another pool of high-fee funds sits in variable annuities, insurance contracts that hold stocks, bonds, or other financial assets in “sub-accounts.” Industry-wide, these sub-accounts hold more than \$106 billion in index funds with expense ratios averaging 0.59%, according to data from Morningstar. That’s partly because these funds don’t have to compete against low-cost versions that investors may buy outside the insurance wrapper, says Todd Cipperman, founder of Cipperman Compliance Services, a financial consulting firm based in Wayne, Pa.”

“*Barron’s* found hundreds of funds held in variable annuities with sharply higher fees than what investors would pay for identical funds outside annuity wrappers. The Rydex Variable Nasdaq 100 fund is a popular choice, showing up in sub-accounts issued by carriers such as Nationwide, Principal, and Prudential, according to Morningstar. The fund has an expense ratio of 1.66%, well above the 0.2% for Invesco QQQ Trust (QQQ), an ETF with the identical portfolio. A spokesman for Nationwide said the firm ‘does not set nor establish the expense ratios of third-party funds.’ Principal declined to comment on the expense ratio of the Nasdaq fund. Prudential did not reply to requests for comment.”

<https://www.wealthmanagement.com/mutual-funds/persistence-high-fee-index-funds>

<https://www.barrons.com/articles/some-index-funds-charge-higher-fees-51546035074>

Wonder why I keep pitching the Committee for the Fiduciary Standard’s Fiduciary Oath?

PUTTING MY CLIENTS’ INTERESTS FIRST

◆◆◆◆

I believe in placing our clients’ best interests first.
Therefore, we commit to the following five principles:

I will always put our clients’ best interests first.

I will act with prudence; that is, with the skill, care, diligence, and good judgment of a professional.

I will not mislead clients, and will provide conspicuous, full and fair disclosure of all important facts.

I will avoid conflicts of interest.

I will fully disclose and fairly manage, in our clients’ favor, any unavoidable conflicts.

Advisor _____

Firm Affiliation _____

Date _____

WHOOOPS

Seems like I included a bum link in my last NewsLetter; so I'm trying again:

FINANCIAL PLANNING – A GREAT PROFESSION

If you have a few minutes to kill, this is a link to an interview I did at the Financial Planning Annual Convention: <https://www.assettv.com/player/default-player/204348>

10 GOLF COURSES YOU MUST VISIT BEFORE YOU DIE

For our golfer friends and clients

10. Cabot Cliffs, Cape Breton, Canada
 9. Emirates Golf Club, Dubai
 8. Highland Course At Primland Resort, Meadows of Dan, Va.
 7. Cape Kidnappers Golf Course, Hawke's Bay, New Zealand
- Here's an example of these courses:

Completed in 2004, Cape Kidnappers is a course designed by noted golf architect Tom Doak. Described as a modern marvel in the world of golf, its ridge-and-valley landscape is unlike any course in the world. The course features a cliff-edge fairway perched 459 feet above sea level.



6. Leopard Creek Country Club, Mpumalanga, South Africa
5. Yas Links, Abu Dhabi, United Arab Emirates
4. Sandy Lane, St. James, Barbados
3. Pebble Beach Golf Links, Pebble Beach, Calif.
2. El Camaleón Riviera Maya Golf Club, Playa del Carmen, Mexico
1. The Blackstone Course at Mission Hills, Hainan, China

<https://www.fa-mag.com/news/the-world-s-top-10-best-golf-courses-to-visit-before-you-die-42076.html?section=3&page=12>

MERRILL LYNCH LOWERS MAX ADVISORY FEE TO 2%

Hot off the press from *FinancialAdvisor IQ*

“Wirehouse Merrill Lynch is dropping the top fees charged to its advisory platform clients for second time in two years...

“The maximum fees such clients will pay effective Jan. 1 will be 2%, according to FundFire. The current fee structure, effective since February 2017, sets the maximum at 2.2% for accounts with less than \$5 million and 2% for those with more than \$5 million, FundFire writes, citing Merrill Lynch’s March ADV.”

No comment.

http://financialadvisoriq.com/c/2160543/260233/merrill_lynch_lowers_advisory?referrer_module=emailReminder&module_order=0&login=1&code=YUdWMlpXNXphM2xBWldzdFptWXVZMjI0TENBeE1EY3hNVE1ETXl3Z01UYzBOREkwT0RVNU5RPT0

MORE TOPs – THE NATION'S TOP 10 ‘PARTY SCHOOL’ COLLEGES

I’m sure parents of students of these schools are very pleased.

10. University of Rhode Island, South Kingstown, R.I., Enrollment: 15,092,
9. Colgate University, Hamilton, N.Y., Enrollment: 2,873
8. University of Wisconsin-Madison, Madison, Wisc., Enrollment: 32,196
7. University of California – Santa Barbara, Santa Barbara, Calif., Enrollment: 22,186
6. Lehigh University, Bethlehem, Pa., Enrollment: 5,075
5. Bucknell University, Lewisburg, Pa., Enrollment: 3,611
4. Syracuse University, Syracuse, N.Y., Enrollment: 15,252
3. Tulane University, New Orleans, Enrollment: 6,571
2. West Virginia University, Morgantown, Va., Enrollment: 22,504
1. University of Delaware, Newark, Del., Enrollment: 18,144

<https://www.fa-mag.com/news/top-ten-party-schools-41833.html>

SURE HOPE HE’S RIGHT

“Byron R. Wien, vice chairman in the Private Wealth Solutions group at Blackstone, issued his list of ‘Ten Surprises for 2019’ on Thursday, and it paints a rosier picture than some investors might expect, considering recent market volatility and economic signals.

“This is the 34th year Byron has released his list, which contains his views on economic, financial and political events for the coming year. Byron defines a ‘surprise’ as an event that the average investor would give a one-in-three chance of happening, but which he believes has a better than 50-50 chance of becoming a reality.”

Wien’s surprises for 2019, in his exact words, are as follows:

“Partly because of no further rate increases by the Federal Reserve and more attractive valuations as a result of the market decline at the end of 2018, the S&P 500 gains 15 percent for the year. Rallies and corrections occur but improved earnings enable equities to move higher in a reasonably benign interest-rate environment.”

<https://www.fa-mag.com/news/wien--surprises--with-rosy-predictions-for-2019-42586.html>

NOT SO GOOD NEWS FOR ACTIVE MANAGERS

From S&P Dow Jones Indices:

Does Past Performance Matter? The Persistence Scorecard

SUMMARY OF RESULTS

- When it comes to the active versus passive debate, one of the key measurements of successful active management lies in the ability of a manager or a strategy to deliver above-average returns consistently over multiple periods. Demonstrating the ability to outperform peers repeatedly is the one way to differentiate a manager's luck from skill.
- According to the S&P Persistence Scorecard, relatively few funds can consistently stay at the top. Out of 557 domestic equity funds that were in the top quartile as of March 2016, only 2.33% managed to stay in the top quartile at the end of March 2018. Furthermore, 0.93% of the large-cap funds, no mid-cap funds, and 3.85% of the small-cap funds remained in the top quartile.
- For the three-year period that ended in March 2018, persistence figures for funds in the top half were also unfavorable. Over three consecutive 12-month periods, 21.96% of large-cap funds, 7.59% of mid-cap funds, and 13.46% of small-cap funds maintained a top-half ranking.
- An inverse relationship generally exists between the measurement time horizon and the ability of top-performing funds to maintain their status. It is worth noting that only 0.45% of large-cap and no mid-cap or small-cap funds managed to remain in the top quartile at the end of the five-year measurement period. Furthermore, no mid-cap or small-cap funds were able to retain their status as of the end of the fourth 12-month period. This figure paints a negative picture regarding long-term persistence in mutual fund returns.

https://thinktank.financialadvisoriq.com/c/2152884/259333?emailCategory=38006&login=1&referrer_module=emailThinkTankDaily&module_order=0&code=YUdGeWlyeGtaWFpsYm5OcmVVQmxkbVZ1YzJ0NUxtTnZiU3dnTXpVMk5UZzJOQ3dnTVRJMU1URTBOVE16Tmc9PQ

AND EVEN MORE BAD NEWS

From the recent S&P 500 SPIVA® Institutional Scorecard:

Similar to findings in previous scorecards, more mutual fund managers underperformed than their institutional counterparts for all equity categories on a net-of-fees basis. • For example, over the past 10 years in the large-cap equity space, 89.51% of mutual fund managers and 58.78% of institutional accounts underperformed the S&P 500® on a net-of-fees basis. ... • Similarly, during the same period in the mid-cap space, 96.48% (85.37%) of mutual funds and 78.57% (62.98%) of institutional accounts underperformed the S&P MidCap 400® on a net (gross) basis. • Small-cap equity remains a challenging space for active managers. Over 80% of mutual funds underperformed the S&P SmallCap 600® (net- and gross-of-fees), while 81.61% (61.45%) of institutional accounts underperformed on a net (gross) basis in the past 10 years. The findings in the small-cap space help to dispel the myth that small-cap equity is an inefficient asset class that is best accessed via active management.

https://us.spindices.com/documents/research/research-spiva-institutional-scorecard-how-much-do-fees-affect-the-active-versus-passive-debate-year-end-2017.pdf?mkt_tok=eyJpIjoiTXpZMU1qQmtZemd5WWpVMilsInQiOiJYTTI4cTNmSk1LeTdTRXFiME9xVIFpRG1PXC9zRGR4amhKUk8wY3VYd0xkcjZ4S1N4a3FSTkVRVXBXbXJROXBHZXNUZVNnVHpaMDBXWXVkcEFoSFRwdXpEXC84OEY4THpDR2VOYzJqanlDZlIwveGhrSTE0MIFVWXRZMEpQYkQ2ZjVOZCJ9

QUIZ FOR MY VERY BRIGHT FRIENDS WHO ARE ALSO FORGETFUL

From my bright friend, Leon. There are nine questions.

These are not trick questions. They are straight questions with straight answers.

- 1. Name the one sport in which neither the spectators nor the participants know the score or the leader until the contest ends.
- 2. What famous North American landmark is constantly moving backward?
- 3. Of all vegetables, only two can live to produce on their own for several growing seasons. All other vegetables must be replanted every year. What are the only two perennial vegetables?
- 4. What fruit has its seeds on the outside?
- 5. In many liquor stores, you can buy pear brandy, with a real pear inside the bottle. The pear is whole and ripe, and the bottle is genuine; it hasn't been cut in any way. How did the pear get inside the bottle?
- 6. Only three words in standard English begin with the letters "dw" and they are all common words. Name two of them.



EVENSKY & KATZ / FOLDES FINANCIAL
WEALTH MANAGEMENT

- 7. There are 14 punctuation marks in English grammar. Can you name at least half of them?
- 8. Name the only vegetable or fruit that is never sold frozen, canned, processed, cooked, or in any other form except fresh.
- 9. Name 6 or more things that you can wear on your feet beginning with the letter 'S.'

Answers to Quiz:

- 1. The one sport in which neither the spectators nor the participants know the score or the leader until the contest ends: boxing.
- 2. North American landmark constantly moving backward: Niagara Falls. The rim is worn down about two and a half feet each year because of the millions of gallons of water that rush over it every minute.
- 3. Only two vegetables can live to produce on their own for several growing seasons: asparagus and rhubarb.
- 4. The fruit with its seeds on the outside: strawberry.
- 5. How did the pear get inside the brandy bottle? It grew inside the bottle. The bottles are placed over pear buds when they are small, and are wired in place on the tree. The bottle is left in place for the entire growing season. When the pears are ripe, they are snipped off at the stems.
- 6. Three English words beginning with "dw": dwarf, dwell, and dwindle.
- 7. Fourteen punctuation marks in English grammar: period, comma, colon, semicolon, dash, hyphen, apostrophe, question mark, exclamation point, quotation mark, brackets, parenthesis, braces, and ellipses.
- 8. The only vegetable or fruit never sold frozen, canned, processed, cooked, or in any other form but fresh: Lettuce.
- 9. Six or more things you can wear on your feet beginning with "s": shoes, socks, sandals, sneakers, slippers, skis, skates, snowshoes, stockings, stilts.

Don't send it back to me. I've already failed it once.

MARKET INSIGHTS

From JP Morgan's most excellent *Market Insights*:

Diversification is an *all-cycle* strategy but it's especially a *late-cycle* strategy. GTM – U.S. | 60

																	2003 - 2017	
2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD	Ann.	Vol.	
EM Equity 56.3%	REITs 31.6%	EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Large Cap 3.0%	EM Equity 12.7%	EM Equity 23.0%	
Small Cap 47.3%	EM Equity 26.0%	Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Cash 1.4%	Small Cap 11.2%	REITs 22.3%	
DM Equity 39.2%	DM Equity 20.7%	DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. 25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.6%	Small Cap -0.6%	REITs 11.1%	Small Cap 18.8%	
REITs 37.1%	Small Cap 16.3%	REITs 12.2%	Small Cap 18.4%	Asset Alloc. -1.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 17.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	REITs -0.9%	Large Cap 9.9%	Comdty. 18.8%	
High Yield 32.4%	High Yield 13.2%	Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Asset Alloc. -2.3%	High Yield 9.6%	DM Equity 18.4%	
Large Cap 28.7%	Asset Alloc. 12.8%	Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap -16.5%	High Yield 14.8%	Asset Alloc. 0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Fixed Income -2.4%	DM Equity 8.6%	Large Cap 14.5%	
Asset Alloc. 26.3%	Large Cap 10.9%	Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	High Yield -2.4%	Asset Alloc. 8.3%	High Yield 11.3%	
Comdty. 23.9%	Comdty. 9.1%	High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -4.1%	Fixed Income 4.1%	Asset Alloc. 11.0%	
Fixed Income 4.1%	Fixed Income 4.3%	Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -8.9%	Cash 1.2%	Fixed Income 3.3%	
Cash 1.0%	Cash 1.2%	Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -15.4%	Comdty. -0.3%	Cash 0.6%	

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Fixed Income: Bloomberg Barclays US Aggregate, REITs: NAREIT Equity REIT Index. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg Barclays US Aggregate, 5% in the Bloomberg Barclays 1-3m Treasury, 5% in the Bloomberg Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period of 12/31/02 – 12/31/17. Please see disclosure page at end for index definitions. All data represents total return for stated period. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of October 31, 2018.

TELL ME IT'S NOT TRUE!

Woodstock Will Return This Summer, For Its 50th Anniversary

<https://www.npr.org/2019/01/09/683575133/woodstock-will-return-this-summer-for-its-50th-anniversary>

UNBELIEVABLE!

Ancient termite megapolis as large as Britain found in Brazil

"These mounds were formed by a single termite species that excavated a massive network of tunnels to allow them to access dead leaves to eat safely and directly from the forest floor," researcher and entomologist Stephen Martin of the UK's University of Salford said in a statement.

"The amount of soil excavated is ... equivalent to 4,000 Great Pyramids of Giza, and represents one of the biggest structures built by a single insect species."



<https://www.cnn.com/travel/article/termites-brazil-old-intl/index.html>

OH MY

Many Americans Think Proof Of Bigfoot Is More Likely Than A Comfortable Retirement

"It's no wonder one in three Americans believe they have a better chance of learning the mythical creature Chewbacca is real than retiring comfortably, given their current dearth of savings and retirement planning. Many simply aren't saving anything and have no plan to start in 2019. Fewer than half (47%) of working Americans in their 40s and 50s with household incomes from \$40,000 to \$99,999 said retirement was one of their top three savings priorities for 2019, according to a new AARP-Ad Council survey. Just 21 percent said saving for retirement is their top priority for the new year."

<https://www.fa-mag.com/news/many-americans-think-proof-of-bigfoot-is-more-likely-than-a-comfortable-retirement-42707.html>

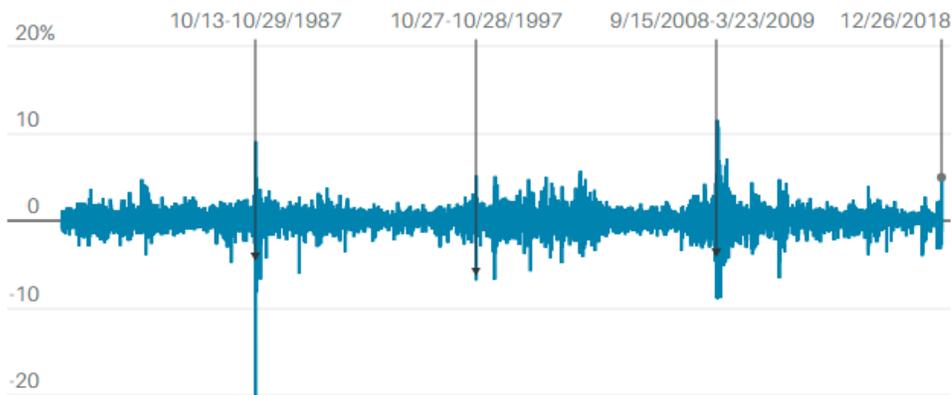
NOT SO UNIQUE

A little perspective from *Barron's* (12/28/2018):

Wednesday's 5% rise for the S&P 500 shocked investors out of their holiday relaxation. But such large moves aren't as rare as you might think: The index has gained more than 4.5% in a single day on 24 occasions in the past 40 years and dropped at least that much a total of 29 times.

The majority of those wild swings came in close proximity to one another, during bouts of heightened volatility that lasted weeks or even months. In the six months after Lehman Brothers' bankruptcy in September 2008, the S&P 500 logged 17 drops of more than 4.5% in a day, along with 10 up moves just as large, including two days of greater-than 10% gains. 1987's Black Monday market crash, when the S&P 500 dropped 20.5% in a single day, was followed up by a 5.3% increase the next day, and a 9.1% gain the day after. If history is any guide, last week's big moves could be just the opening act of a rocky market ahead.

Volatility Isn't New: 40 Years of Daily S&P 500 Percentage Moves



<https://www.barrons.com/articles/sizing-up-the-markets-recent-volatility-51546030930>



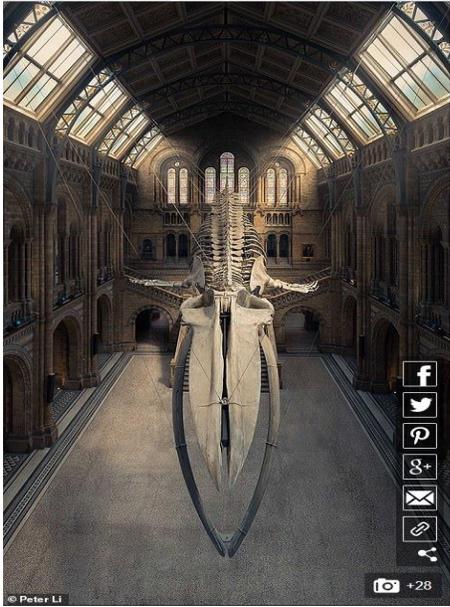
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AMAZING PICTURES

Winners of the Epson International Pano Award contest from my friend Leon. Lots more at:

https://www.dailymail.co.uk/travel/travel_news/article-6405507/The-stunning-winners-panoramic-photography-awards-revealed.html

Zoom the page up for more dramatic views.



© Peter Li
The runner-up in the 2018 amateur competition was Peter Li from the UK with his shot Natural History Museum (left). Meanwhile, Mads Peter Iversen came second in the dig Northern Lights swirling over Lofoten in Norway (right)



© Mads Peter Iversen



© Stefan Thaler
Stefan Thaler from Austria took this image of the snaking Maloja Pass mountain pass running through the Swiss Alps. It was entered into the 'built environment' category



© Ongko Sumarno
This image, showing a horse rider in a mountain range in Indonesia, was taken by Ongko Sumarno. It was entered into the amateur landscape category



© Sandra Herber
This atmospheric shot was taken by Sandra Herber during a storm washing over Oklahoma in the U.S. It came third in the amateur landscape category



© Anastasia Woolmington
Anastasia Woolmington from Australia took this photo while travelling in Japan. She said of the shot: 'Meoto Iwa or Wedded Rocks is a pair of sacred rocks in the sea off Futami in Japan. The two rocks are joined together in matrimony by a sacred Shinto straw rope called a shimenawa. The larger of the two rocks represents a husband, while the smaller rock represents the wife. Many couples from Japan travel there to ask for blessing for their marriage'



© Colin Sillerud
This panorama, captured by Colin Sillerud, shows a rainbow arching over the red rock of the Grand Canyon. It was entered into the amateur landscape category

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GETTING OLDER

A distraught senior citizen phoned her doctor's office. "Is it true," she wanted to know, "that the medication you prescribed has to be taken for the rest of my life?"

"Yes, I'm afraid so," the doctor told her. There was a moment of silence before the senior lady replied, "I'm wondering, then, just how serious is my condition because this prescription is marked 'NO REFILLS.'"

~~~~~

An older gentleman was on the operating table awaiting surgery and he insisted that his son, a renowned surgeon, perform the operation. As he was about to get the anesthesia, he asked to speak to his son.

"Yes, Dad, what is it?"

"Don't be nervous, son; do your best, and just remember, if it doesn't go well, if something happens to me, your mother is going to come and live with you and your wife...."

(I LOVE IT!)

~~~~~

The older we get, the fewer things seem worth waiting in line for.

~~~~~

When you are dissatisfied and would like to go back to youth, think of Algebra.

~~~~~

Now, if you feel this doesn't apply to you, stick around awhile ... it will!

SPEAKING OF OLDER

I graduated from high school in 1960. Here are some sobering facts from that year:

Average income.....\$5,620/year
Senator's income.....\$22,500/year

New home.....\$12,700
Gas.....31 cents/gallon
Movie ticket......51 cents
Minimum wage.....\$1.00
DOW.....613

Best Picture....."The Apartment"
Best Actor.....Burt Lancaster, "Elmer Gantry"
Best Actress.....Elizabeth Taylor, "Butterfield 8"

Top Songs

"It's Now or Never," Elvis Presley
"I'm Sorry," Brenda Lee
"Running Bear," Johnny Preston
"Teen Angel," Mark Dinning
"The Twist," Chubby Checker
"Alley Oop," Hollywood Argyles

Those were the good old days!

LAST MINUTE ADDITION

Jack Bogle, founder of Vanguard and a beautiful person, just passed away. Below is a wonderful tribute by Ron Lieber in the New York Times.

<https://www.nytimes.com/2019/01/17/your-money/jack-bogle-vanguard.html>

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



Harold Evensky
Chairman
Evensky & Katz / Foldes Financial Wealth Management