



EVENSKY & KATZ / FOLDES
— WEALTH MANAGEMENT —

NEWSLETTER VOLUME 15, NO. 3 | JUNE 2022

DEAR READER:

SHAME ON ME

I've been remiss in not reminding all of my readers about one of the most valuable investment and planning educational sites available anywhere (and I'm not biased); namely the [E&K Resource site](#).

In addition to my past NewsLetters and suggested reading list, I particularly recommend Brett and Marcos' excellent [Talk Your Chart Videos](#).

And, (shameless plug) my little book *Hello Harold*. [Free electronically on Amazon](#)

Or [request a free paperback copy](#).

SPIVA U.S. YEAR-END 2021

Once again...

79.6% of domestic equity funds lagged behind the S&P Composite 1500® in 2021.

98.6% of large-cap growth funds failed to beat the S&P 500 Growth—not only the worst-performing asset class in 2021 but the worst-performing of *any* U.S. equities category in the past 21 years.

U.S. Equity		% OF FUNDS THAT UNDERPERFORMED BENCHMARK				
		1 YR (%)	3 YRS (%)	5 YRS (%)	10 YRS (%)	15 YRS (%)
FUND CATEGORY	COMPARISON INDEX					
Large-Cap	S&P 500®	85.07	67.85	74.10	83.07	N/A
Mid-Cap	S&P MidCap 400®	61.87	52.94	59.22	72.45	N/A
Small-Cap	S&P SmallCap 600®	70.54	51.49	63.26	79.23	N/A
Multi-Cap	S&P Composite 1500®	80.30	71.10	71.83	87.25	N/A
Domestic Equity	S&P Composite 1500®	79.63	71.81	75.07	86.10	N/A
Large-Cap Growth	S&P 500 Growth	98.64	74.46	67.61	87.34	N/A
Large-Cap Core	S&P 500®	78.82	76.27	87.37	92.93	N/A

This seems to be telling us something about active management.

[SPIVA U.S. Year-End 2021](#)

HOW TO CALCULATE EXPECTED PORTFOLIO RETURN

[Excerpts from an entry in Investopedia:](#)

As a well-informed investor, you naturally want to know the expected return of your portfolio—its anticipated performance and the overall profit or loss it's racking up. Expected return is just that: expected. It is not guaranteed, as it is based on historical returns and used to generate expectations, but it is not a prediction...

An investor bases the estimates of the expected return of a security on the assumption that what has been proven true in the past will continue to be proven true in the future.

An interesting piece but fraught with what I would consider two major flaws:

1. "Historical returns: sounds like a solid basis for planning; however, how historical are they? Do they cover the last 10 years, 20 years, 50 years, etc.?"
2. There is no reason to believe that "what has been proven true in the past will continue to be proven true in the future."

Also, the riskiness of a portfolio is not a straightforward measure – thus, without an accurate estimate of the "riskiness," talking about the "expected return" is not very useful.

MAGIC MARKET APRIL

If you're still looking for market gurus, [here's one more guide that can help you lose money](#) ...

Mark Hulbert, a thoughtful commentator I've quoted before, wrote an excellent piece for Market Watch.

"April could be a great month for stocks – if you believe in magic."

The theme of Mark's article is "It's easy for investors to 'discover' a pattern where none exists."

Take my word for it: April is the best month of the calendar for stocks. Or it isn't.

Yet some exuberant bulls on Wall Street are telling their clients that the U.S. stock market's seasonal tendencies are strongest in the month of April. While I have no doubt that the historical data can be tortured to make April look like the best month for equities, the data mining required to do so means that the conclusion has no statistical significance.

In April this year the S&P was off 8.7% and NASDAQ lost 13.2%.

A FEW SMILES

From my friend Alex



The first senior moment.



HUGE RED FLAGS FOR PERSONAL FINANCE 'INFLUENCERS'

My regular readers know how skeptical I am about most “advice” provided on the web, but occasionally I come across a piece that I think has substance. The following are good examples. While most of the flags are self-explanatory, I thought a few required a bit more explanation.

1. If it sounds too good to be true ... it's not.
2. If they focus solely on short-term investments ... they're probably looking to make their profit from trading fees.
3. If they engage in excessive flattery ...
4. If they make claims online ...
5. If you can uncover evidence that a hustler is pretending to be something they aren't, it's a major red flag. If a person claims to be *anything* on social media, be aware of whether they present evidence of their claims (and then do your own research on them). Anyone can post a TikTok video saying “I'm a billionaire,” but are they on *Forbes'* list of billionaires?
6. If they tout “secret” ways to build wealth ... ask yourself why they're still working for a living.
7. Online crowds are not to be trusted ...
Internet echo chambers are seductive. Crowdsourcing is a great way to solve problems, and when seemingly thousands of people are extolling the virtues of an investment strategy, could they really *all* be wrong? Yes. They could all be wrong. Never underestimate the stupidity of crowds.
8. If they focus solely on day trading ... steer clear, unless your goal is to make a broker rich with your trading fees.
9. If they try to sell you on option trading ... ditto.
10. If they give “maverick” advice ...
While some people have made money following counterintuitive investment strategies that defy the conventional wisdom, many, many more have lost money that way (I don't know of any who did make money long term, do you?). You will be one of the people who loses money. You are not smarter than the “system” and neither is some guy on YouTube.
11. If they slide into your DMs ...
No good financial opportunity ever came from a random message from a stranger. Even if a financial influencer you like and follow sends you a message, don't trust it. Unscrupulous operators are spoofing the identity of financial influencers to hawk shady schemes.
12. If they're boasting on the web ...
Social media platforms are rife with people who brag about all the money they make buying and selling individual stocks. Do not listen to these people. Day trading is a bad idea. It's estimated that 95% of day traders ultimately lose money (the 5% are lucky). Sensible investments take time to pay off, and unless you have fun money to play around with, investments should be made as part of a long-term strategy. Neither you nor @moneyman5031 on Instagram is equipped to profit from the vagaries of the market.
13. If they have a lot of followers ...
A social media account with a large number of followers may seem more legitimate than one from someone who is just starting out, but you can buy followers easily and cheaply. A high follower count without the community engagement that usually comes with it is a red flag every time.
14. If they engage in hard-selling and pressure tactics ...
15. If they aren't upfront about how they make their money ...

Everyone needs to make a buck, so some level of monetizing an online following is to be expected, but be wary of “financial gurus” pushing tons of shady-looking affiliate links or nontransparent sponsorships, especially if they claim to be rich and successful. Successful entrepreneurs usually try not to come across as desperate salesmen. Good actors will be clear about how their content makes money.

16. If they seem trustworthy ...

Scams only work because scammers are able to build trust with their marks, so if an online influencer seems legit in every way, ignore your instincts. Check their background, google their name, and ask around.

[Huge Red Flags From Personal Finance “Influencers” \(lifehacker.com\)](#)

I'M BEATING THE MARKET YTD; HERE'S HOW

“Most people on Seeking Alpha and elsewhere know my team and me as “Income experts.” We’re “those crazy high-yield guys” who “claim they don't need to sell anything to pay for retirement.” I embrace that description, except I think you’re crazy if you ignore income investing and decide to sell all your net worth to pay for your retirement. It’s counterintuitive.

Getting back on track, I love making money, and this year the market has not been doing so great at making money for most of us ...

Today, I want to take the lid off of two picks we’ve been massively benefitting from while the market has been struggling. They still have plenty of excellent dividends to pay us and will benefit from this rising-rate, strong-inflation environment we find ourselves in.

Let’s dive in.

Pick #1: BCX – Yield 5.1%”

[I'm Beating The Market YTD, Here's How | Seeking Alpha](#)

One can only hope that the one-year results forecast a future that’s different from the last 3 and 5 years.

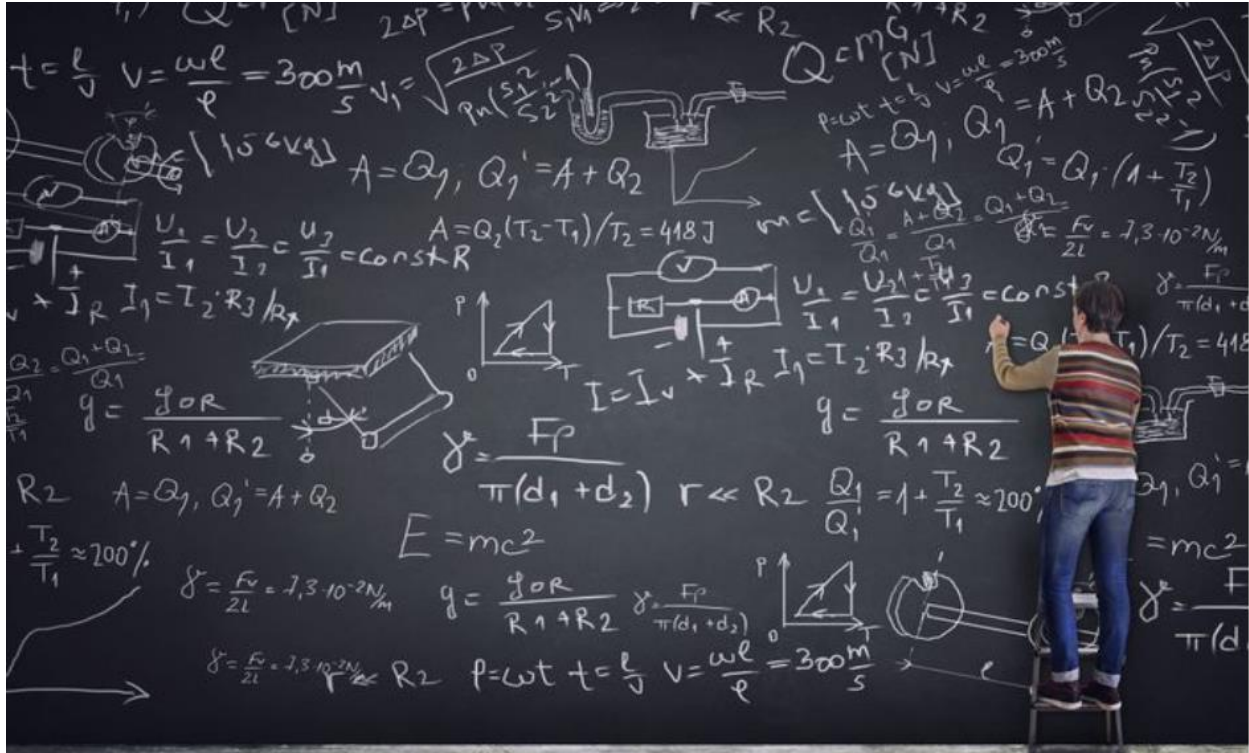
		3 YR		5 YR	
	Return	Sharpe	Return	Sharpe	
Blackrock Resources & Commodity (BCX)	14.70%	0.7	19.30%	0.55	
Morningstar Gbl Upstm Nar Res NR USD	17.50%	0.8	19.10%	0.73	

THANKS TO GARY FOR KEEPING ME HONEST

My last NewsLetter had a "TID BIT"—The year 2022 is cool. In Roman numerals the date is MMCCXXII. That is, ordered pairs of letters for the year.

Turns out I got carried away with too many letters. It should have been MMXXII. My only excuse is I'm OK with calculus but Roman numerals are obviously not my strong point.

REMINDS ME OF FRESHMAN ENGINEERING CLASSES

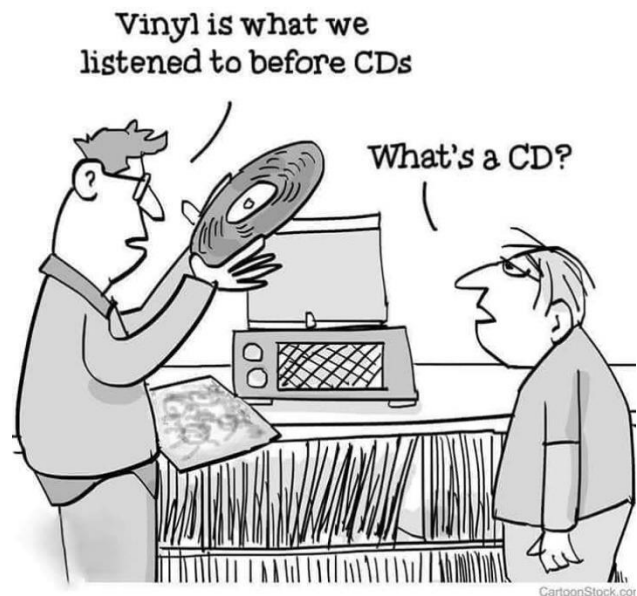


COLLEGE DEGREE? WHY?

[Walmart's starting pay range for new truck drivers is between \\$95,000 and \\$110,000 after wage increase](#)

The pay raise for its 12,000 truck drivers makes the starting range for new drivers between \$95,000 and \$110,000, according to Walmart spokeswoman Anne Hatfield. The retailer said that \$87,500 had been the average that new truck drivers could make in their first year.

WHO SAYS I'M GETTING OLD?



MY FAVORITE CRYPTOCURRENCY OBSERVATION

Imagine buying literally nothing and thinking it's an investment.

GARY SHILLING: SELL STOCKS; A RECESSION IS COMING

"Get out of stocks, according to Gary Shilling (*Forbes* columnist and founder of A. Gary Shilling & Co.) who has gone to 30% cash in the portfolios he manages. The economy will be in recession by the end of the year, and stocks will fall in response."

This was a March 2022 headline. Mr. Shilling may be right; after all, a stopped watch is right twice a day. Of course, he may not be.

The most recent reports on the accuracy of his predictions were articles by my friend Larry Swedroe.

2/2013 – Gary Shilling, His score was 38%.

3/2017 – Gary Shilling, His score was just 34%.

Not too encouraging

[Swedroe: Grading the Forecasters](#)

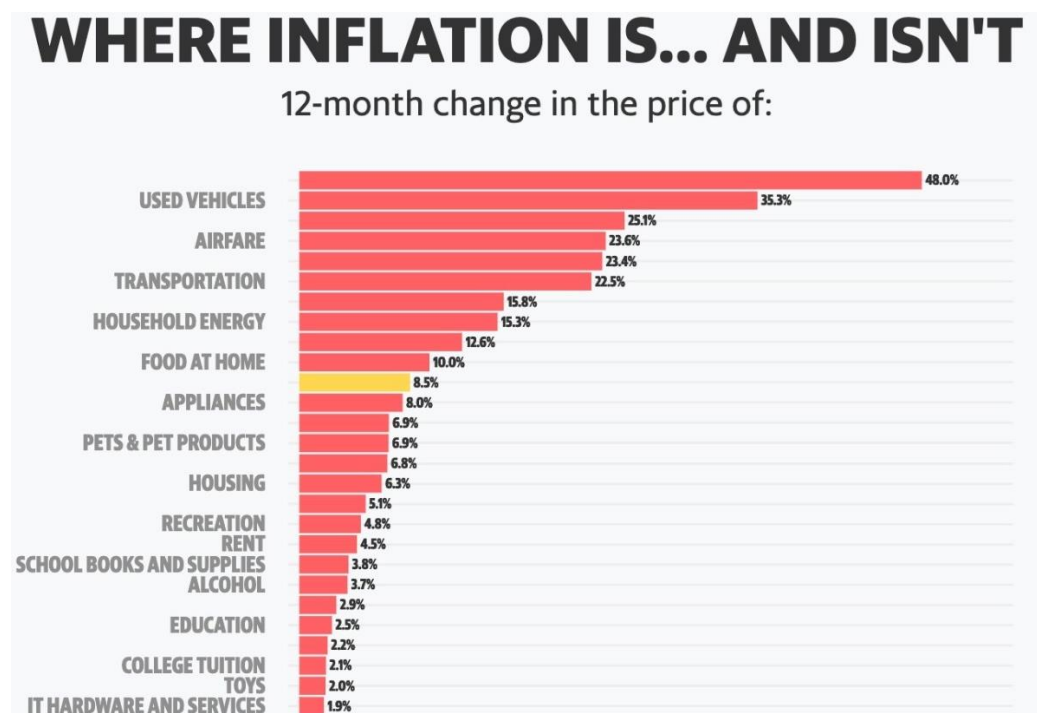
[Who are the most \(least\) accurate stock gurus?](#)

WISDOM OF NERO WOLFE

Recently, when reading one of the wonderful Rex Stout Nero Wolfe books, I came across a comment by Nero Wolfe that seemed perfect in describing much of the pontification I read in the public and professional financial media.

“I am sometimes dumbfounded by your fatuity.”

INFLATION



Bureau of Labor Statistics Data March 2022—Yahoo Finance

Gundlach (founder of DoubleLine Capital)—["We Will See 9% Inflation in 2022."](#)

Wall Street Journal—The overall cost of gas, food and other everyday items is increasing at its fastest rate in more than 40 years. And experts cannot say with confidence whether price increases will speed up or slow down in the coming months.

And a few thoughts to put Inflation into perspective ...

Inflation turns money into a foreign language.

However, every storm runs out of water.

FOR YOUR KIDS OR GRANDKIDS

The Safe Investment That Will Soon Yield Almost 10%

The March surge in the Consumer Price Index is the latest boon to buyers of U.S. savings bonds that are adjusted for inflation, known as I Bonds.

This really is a terrific investment. Unfortunately, these are limited to \$10,000/year (electronic version); however, they may be a great opportunity for younger investors with a limited portfolio.

[The Safe Investment That Will Soon Yield Almost 10%](#)

THE SILVER YEARS

From my #1 Son:

- My doctor asked if anyone in my family suffered from mental illness and I said, “No, we all seem to enjoy it.”
- Just once, I want a username and password prompt to say, “Close enough.”
- Retirement to-do list: Wake up.
- People who wonder if the glass is half empty or half full miss the point. The glass is refillable.
- I don’t trip, I do random gravity checks.
- One minute you’re young and fun. Next, you’re turning down the car stereo to see better.
- I came. I saw. I forgot what I was doing. Retraced my steps. Got lost on the way back.
- If you can’t think of a word, say, “I forgot the English word for it.” That way people will think you’re bilingual instead of an idiot.
- I don’t always go the extra mile, but when I do it’s because I missed my exit.
- Having plans sounds like a good idea until you have to put on clothes and leave the house.
- It’s weird being the same age as old people.
- When I was a kid, I wanted to be older ... This is not what I expected.
- Life is like a helicopter. I don’t know how to operate a helicopter either.
- I see people my age mountain climbing. I feel good just getting my leg through my underwear without losing my balance.

HEADS UP, THEY’RE LOOKING FOR YOUR MONEY

UBS Shuffles Wealth Unit to Get More Out of Rich Clients

UBS says it’s integrating its Global Family Office unit, which caters to its wealthiest clients, into a broader division aimed at bringing those clients closer to the firm’s investment banking business.

While the new unit is aimed at selling more of the firm’s services to the richest wealth-management clients, Hamers (CEO) has also steered UBS to the mass affluent market, most recently through the \$1.4 billion acquisition of U.S. robo-advice provider.

[Financial Advisor IQ—UBS Shuffles Wealth Unit to Get More Out of Rich Clients](#)

WHOOOPS!

[Mom-and-Pop Investors Took a Billion-Dollar Bath Trading Options During the Pandemic](#)

Of all the risky things amateur investors did while locked at home in the pandemic, dabbling in stock options was one that veteran investors were convinced would end badly. They weren't wrong.

Turns out, taking leveraged flyers on meme stocks mentioned on Reddit's WallStreetBets trading forum is harder than it looks. New research from economists at the London Business School (the study, *Retail Trading in Options and the Rise of the Big Three Wholesalers*) found that mom-and-pop day traders managed to lose more than \$1 billion during the bull market. The bill climbs to \$5 billion when the cost of doing business with market-makers is factored in ...

Researchers Svetlana Bryzgalova, Anna Pavlova and Taisiya Sikorskaya estimated that retail investors lost \$1.14 billion trading options from November 2019 to June 2021, assuming a 10-day holding period. Trading costs ate up an additional \$4.13 billion.

I CAN ONLY THINK MY OLD FRIEND JOHN BOGLE WOULD NOT BE PLEASED

With McKinsey helping to up its "efficiency," Vanguard Group does an eye-opening client acquisition deal with American Express that layers a big fee onto a financial planning offering that the two firms roughly split.

As one observer notes: "I think it's just getting access to Amex's customer base and paying Amex a fee for any success they have in attracting those folks to pay 50 bps for something they could get directly for 30 bps," says Dan Wiener, editor of The Independent Adviser for Vanguard Investors and principal of RIA Adviser Investments.

And another: "The seeming metamorphosis recently caught the eye of Bloomberg in an analysis piece with the headline 'Vanguard Stumbles in Pivot from Cult of Jack Bogle: For Diehard Fans of the Company's Founder, What's at Stake Is the Very Soul of the \$8 Trillion Mutual-Fund Giant.' Vanguard has let it all hang out lately in investing for alpha, raising fees and moving upmarket. Vanguard Group is priming its \$243-billion RIA as a profit engine with high-octane, higher-risk, higher-margin proprietary funds, tempered by an 'opt-in' for investors."

[With McKinsey helping to up it's 'efficiency' – RIABiz](#)

WE NEED TO LAUGH

From my cousin Fran



ALICE IN WONDERLAND

Or maybe *Through the Looking Glass*. Lewis Carroll couldn't have come up with a better story; perhaps you read about it.

First a little history ...

Twitter emerged from the podcasting venture Odeo, which was founded in 2004 by Evan Williams, Biz Stone, and Noah Glass. (Williams and Stone had previously worked at Google, and Williams had created the popular web-authoring tool Blogger.) Apple announced in 2005 that it would add podcasts to its digital media application iTunes, and Odeo's leadership felt that the company could not compete with Apple and a new direction was needed. Odeo's employees were asked about any interesting side projects they had, and engineer Jack Dorsey proposed a short message service (SMS) on which one could share small bloglike updates with friends. Glass proposed the name Twtr. Dorsey sent the first tweet ("just setting up my twtr") on March 21, 2006, and the completed version of Twitter debuted in July 2006.

Now, can't say I really understand all of the hype about NFTs (I don't) so the following is cobbled together from a number of sources.

In December 2020, Jack Dorsey created a non-fungible token (NFT) out of his first-ever Twitter post. NFTs are digital assets whose ownership is encoded on a blockchain. In theory, owning an NFT means that the holder gets to own and control the digital asset.

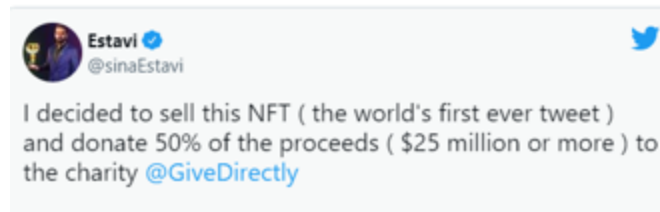


He turned a static image of a 5-word tweet into a digital file stored on a blockchain, and voilà, an NFT was born.



A few months later, Iranian crypto entrepreneur Sina Estavi got swept up in the frenzy, buying Dorsey's NFT for \$2.9 million. He tells *Forbes* he paid such a hefty sum due to the NFT's uniqueness and association with such a valuable company as Twitter.

On April 5, 2022 Estavi put the NFT up for auction for about \$50 million. Embarrassingly, no one bid more than \$280. "This NFT is not just a tweet, this is the Mona Lisa of the digital world," he said. But the crypto investor was in for a rude shock when the auction closed on Wednesday with a maximum bid of \$277. Estavi says "no one knows" why the bids came in so low. It seems that few people took it seriously.



The auction received just seven total offers ranging between approximately \$6 and about \$277 ... However, the NFT received more bids after the auction closed on Wednesday [4/15] and the top offer currently stands at \$12,733 ... “My offer to sell was high and not everyone could afford it,” Estavi told Reuters. “It’s important to me who wants to buy it; I will not sell this NFT to anyone because I do not think everyone deserves this NFT.”

Sure hope I’m in the “do not deserve” camp.

[Jack Dorsey’s First Tweet NFT Listed for \\$48 Million, Highest Bid at \\$280](#)

[Why Jack Dorsey’s First-Tweet NFT Plummeted 99% In Value In a Year](#)

[Has the bubble popped? Crypto investor bought “Jack Dorsey’s first tweet” NFT for \\$2.3 million](#)

QYLD: THE MATH BEHIND THIS 13%-YIELDING EXCHANGE-TRADED FUND (ETF)

I [read this](#) about the Global X Nasdaq 100 Covered Call ETF (QYLD) on a Seeking Alpha posting:

QYLD has paid 100 consecutive monthly distributions since its inception and now has a forward yield of over 13%.

I want to be clear, if you’re not seeking an income-generating vehicle, QYLD is not an investment that will satisfy your investment strategy. QYLD has become a very popular fund among income investors, but if capital appreciation is what you’re seeking, QYLD will only take you so far in the traditional sense. While nothing is impossible, there is a very strong probability that QYLD will not outperform an S&P 500 index fund or a total market fund on a per-share basis.

And it’s pitches like this for “income-generating vehicles” that drive me crazy. I’m continually clueless why some investors have not learned that “income” and “capital appreciation” are not competitors. All that matters is how you will do if you use dividends and sell a portion of your investment to obtain the income you believe the investment can sustain over the long term. You simply do not need your “income” to depend solely on dividends; TOTAL RETURN (i.e., dividends + capital appreciation) is all that matters!

For the 5 years through 12/31/2022, QYLD had a total return of approximately 11.3%. IWV, the iShares S&P 500 Growth ETF (the investment that according to Morningstar most closely reflects the nature of QYLD’s investments), had an approximately 14.1% total return.

GLORIOUS INSULTS

from an era before the English language got boiled down to 4-letter words ...

A member of Parliament to Disraeli: *"Sir, you will die either on the gallows or of some unspeakable disease."* "That depends, Sir," said Disraeli, *"whether I embrace your policies or your mistress."*

"He had delusions of adequacy." Walter Kerr

"I have never killed a man, but I have read many obituaries with great pleasure." Clarence Darrow

"He has never been known to use a word that might send a reader to the dictionary."
William Faulkner (about Ernest Hemingway)

"I didn't attend the funeral, but I sent a nice letter saying I approved of it." Mark Twain

"I am enclosing two tickets to the first night of my new play; bring a friend, if you have one." George Bernard Shaw to Winston Churchill. *"Cannot possibly attend first night, will attend second... if there is one."* Winston Churchill, in response.

"He is a self-made man and worships his creator." John Bright

"In order to avoid being called a flirt, she always yielded easily." Count Talleyrand

"He loves nature in spite of what it did to him." Forrest Tucker

"His mother should have thrown him away and kept the stork." Mae West

"Some cause happiness wherever they go; others, whenever they go." Oscar Wilde

"I've had a perfectly wonderful evening. But I'm afraid this wasn't it." Groucho Marx

FOLLOW THE EXPERTS

If you're looking to follow the advice of market "experts," there is a new software just for you.

"Outperform works by comparing the forecast history of more than 2,000 private analysts and over 3,700 investment firms with the performance of stocks over time, providing an overall rating based on past accuracy."

Needless to say, as anyone who has followed my writing over the last few decades knows, I believe the only ones profiting from this over the long run will be the software vendors.

[Make Smarter Investments With 97% Off This Predictive Tool](#)

A FEW MORE “INCOME” RECOMMENDATIONS

Caveat emptor—do your homework.

From Seeking Alpha

MCN: Actively Managed Buy-Write CEF, 9.27% Yield—the fund has performed extremely robustly on a 3-year time frame, matching the S&P 500 index.

The Madison Covered Call & Equity Strategy Fund (NYSE: [MCN](#)) is a closed-end fund focused on a buy-write equities strategy. The fund is fairly compact with only 35 holdings but has a robust 3-year total return that currently sits at 58.09% [April 15, 2022].

Don't know where the 58.09% came from, but as of 4/14 Morningstar shows the S&P at 58.9% and MCN at 38.24%.

MCN	5YR	8.80%	10YR	7.46%
-----	-----	-------	------	-------

IVV	5YR	12.34%	10YR	13.84%
-----	-----	--------	------	--------

[MCN: Actively Managed Buy-Write CEF, 9.27% Yield \(NYSE:MCN\) | Seeking Alpha](#)

[Madison Funds](#)

[iShares Core S&P 500 ETF](#)

And from *24/7 Wall Street*

7 “Strong Buy” REITs With Massive Dividends Are Incredible Bargains Now

The first real estate investment trust (REIT) listed was Getty Realty. Here's the performance vs. Morningstar's U.S. Market Index (5/24):

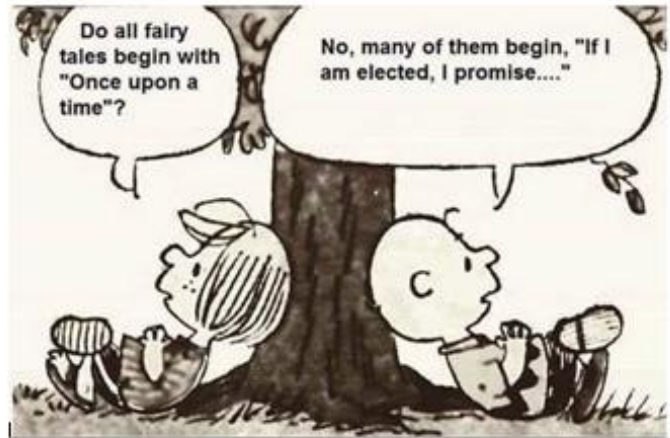
GTY	5YR	6.35%	10YR	9.15%
-----	-----	-------	------	-------

MS	5YR	12.05%	10YR	13.52%
----	-----	--------	------	--------

[7 “Strong Buy” REITs With Massive Dividends Are Incredible Bargains Now – 24/7 Wall St. \(247wallst.com\)](#)

[Getty Realty Corp – Stock Trailing Returns GTY](#)

WELCOME TO OUR WORLD



FUNDRAISING

If you're involved in any charitable organization, you need to read Dr. Russell James' incredibly powerful (and interesting) NewsLetter postings. Here's his latest ...

[\(99+\) Understanding the Ask as Story: The "Inciting Incident" in Fundraising Story | LinkedIn](#)

INFLATION

The Tampa Bay Rays and the 20-year-old shortstop agreed to an 11-year deal worth \$182 million, with an option for a 12th year for a total of \$223 million.

[Tampa Bay Rays, phenom shortstop Wander Franco agree to massive 11-year, \\$182 million extension](#)

I KNEW YOU'D WANT TO KNOW

Thanks to my friend and retired math professor Monty.

A new equation can describe every egg. *Researchers have put forward a “universal formula for egg shape.”*

Turns out there are lots of egg shapes.

Identifying a universal formula has taken quite some time, as egg shapes are more complicated than they appear. In fact, bird eggs come in four main shapes, three of which are easy to describe mathematically: circles, ellipses, and ovals. But the fourth one—pyriform (only around 3% of bird eggs are pyriform), meaning “pear-shaped”—has bedeviled mathematicians for years.

While we don't yet have a definitive explanation for why bird eggs come in so many shapes, we now have a single formula to describe all these shapes:

$$y = \pm \frac{B}{2} \sqrt{\frac{L^2 - 4x^2}{L^2 + 8wx + 4w^2}} \times \left(1 - \frac{\sqrt{5.5L^2 + 11Lw + 4w^2} \times (\sqrt{3BL} - 2D_{L/4} \sqrt{L^2 + 2wL + 4w^2})}{\sqrt{3BL}(\sqrt{5.5L^2 + 11Lw + 4w^2} - 2\sqrt{L^2 + 2wL + 4w^2})} \times \left(1 - \sqrt{\frac{L(L^2 + 8wx + 4w^2)}{2(L - 2w)x^2 + (L^2 + 8Lw - 4w^2)x + 2Lw^2 + L^2w + L^3}} \right) \right)$$

[Credit: Narushin et. al., [“Egg and Math”](#) | Used with author permission]

[A new equation can describe every egg—Scienceline](#)

AVOID MISLEADING

[Some good advice from AARP](#) on finding the best health care (doctor, hospital, surgeon)—

—[and how to find the best help](#). This is a “member only site,” but membership is only \$12/year (with a “limited time” offer at \$9).

WHERE ARE THE CUSTOMERS' YACHTS?

An article from my friend Professor Taft

Part #1

Gabe Plotkin manages \$8 billion at his firm Melvin Capital. His firm does intense research on stocks. They charge 2% of your money + 30% of the profits they make per year, to implement their strategy.

He lives in this house (purchased for \$44,000,000).



I have no doubt he means well and is a nice guy ...

However, as the rest of the story goes ...

Before last year, Mr. Plotkin had compiled one of the best investing track records around. Between 2014, when he founded Melvin with \$900 million in capital, and 2020, the fund returned an average of 30% annually, after fees.

GameStop, a struggling bricks-and-mortar retailer, was one of Melvin's bearish bets. Its surge—along with other stocks Melvin was shorting—erased about \$7 billion of the hedge fund's capital in January 2021, and the fund plunged 55%. Plotkin would spend the rest of the year trying to dig out of that hole.

Despite improved performance in later months, the fund still ended the year down 39%, and tumbled an additional 21% in the first quarter of 2022.

Based on these numbers, I compared a client's \$10,000 hypothetical return from 2014—the first quarter of 2022 to the return of the iShare IVV (the S&P 500) and found that Melvin did in fact beat the market, but not exactly a staggering outperformance for 5+ years.

Melvin	\$30,240
IVV	\$25,990

And, adjusting for risk and taxes, I doubt Melvin would look very good.

Part #2

One of the “pitches” for hedge funds has been that the manager has an identity of interest with its investors as the manager can’t keep raking in the extraordinary performance fees (30% in Melvin’s case) if there is a loss until the investors are made whole (of course it keeps receiving the 2%). The concept is a “high-water” mark.

From Investopedia:

A high-water mark is the highest peak in value that an investment fund or account has reached. This term is often used in the context of fund manager compensation, which is performance-based. The high-water mark ensures the manager does not get paid large sums for poor performance. If the manager loses money over a period, he must get the fund above the high-water mark before receiving a performance bonus from the assets under management.

Catch 22—If, after significant losses, a manager sees no light at the end of the tunnel, they just close the poor-performing fund and start a new one. So much for identity of interest.

Here’s a follow-up story on Melvin.

Melvin Capital, the embattled hedge fund run by its once high-flying founder Gabe Plotkin, has been discussing a novel plan with its investors under which the firm would return their capital, while giving them the right to reinvest that capital in what would essentially be a new fund run by Plotkin.

Under the terms being discussed, Plotkin would unwind his current fund at the end of June. That fund was down 21% at the end of the first quarter.

Plotkin would then start what would essentially be a new fund on July 1 with whatever money his investors decided to reinvest, **but he would do so without having to bring those investors back to even on their invested capital before he could earn a performance fee** [my emphasis].

This so-called high-water mark, which requires hedge fund managers to return their investors’ capital to par prior to earning fees, is virtually impossible for Plotkin to meet on much of the capital in Melvin, given the fund’s losses of 39% last year and at least 21% so far this year. Plotkin plans to charge performance fees of 15%–25% for the newly formed fund [such a bargain].

[What Is a High-Water Mark? -Investopedia](#)

[Hedge Fund Melvin Lost \\$6.8 Billion in a Month. Winning It Back Is Taking a Lot Longer. - WSJ](#)

[Melvin Capital weighs unwinding current fund to start new one: Sources \(cnbc.com\)](#)

Moral of the story ... Obviously, I am a skeptic about some of the get-rich schemes pitched to investors and especially the claim about “an identity of interest.” So, I consider this story a sobering educational piece for anyone considering chasing a hot manager.

MORE BITCOIN

Over the next week (4/29/2022) you'll hear about a major new DeFi crypto space invention, which could be a strong catalyst for explosive growth in the market. You're going to want to make sure you're in on this if you're interested in making some money.

It's now 5/24 and I'm still waiting ...

P.S. DeFi is short for decentralized finance. It's an umbrella term for the part of the crypto universe that's geared toward building a new, internet-native financial system, using blockchains to replace traditional intermediaries and trust mechanisms.

[Yahoo! Finance – Bitcoin USD \(BTC-USD\)](#)

BITCOIN TO BE WORTH OVER A MILLION DOLLARS

The price of one Bitcoin (BTC) could exceed \$1 million by 2030, states a report by U.S.-based ARK Investment Management LLC. According to the report, Bitcoin mining will encourage and also use electricity from renewable carbon-free sources.

[Bitcoin Price Could Exceed \\$1 Million By 2030: Report](#)

I MAY BE WRONG

But I'm in good company.

Both Buffett and Charlie Munger have made hostile comments toward Bitcoin in the past. Most famously, Buffett said Bitcoin is "probably rat poison squared." Munger doubled down on that sentiment ...

"In my life, I try and avoid things that are stupid and evil and make me look bad in comparison to somebody else—and bitcoin does all three," Munger said. "In the first place, it's stupid because it's still likely to go to zero. It's evil because it undermines the Federal Reserve System ... and third, it makes us look foolish compared to the Communist leader in China. He was smart enough to ban bitcoin in China."

[Bitcoin 'stupid and evil,' Berkshire Hathaway vice chair Munger says](#)

AARK REVISITED

I wrote about Ark Innovation (ARKK, an active ETF) back in my [March 2022 NewsLetter](#) with the warning *ACTIVE ETFs? THINK TWICE*.

It has been a big story as CNBC says: “Wood has become one of the most high-profile active managers on Wall Street. When I wrote about the funds performance at the end of 2021 it was down about 23%. At the time, Cathie Wood, the portfolio manager, said, ‘With a five-year investment time horizon, our forecasts for these platforms suggest that our strategies today could deliver a 30–40% compound annual rate of return during the next five years.’ My observation was ‘Time will tell...’”

Unfortunately, so far time is not telling a very good story. This year ARKK has suffered a brutal market, dropping nearly 59.6% as of 5/24/2022.

[Elon Musk and Cathie Wood knock passive index investing, saying it's gone too far](#)

SPEAKING OF EXPERTS

The Barron's Roundtable (On Fox) “... convenes influential investors, analysts, and market strategists to provide insights into investing and individual stocks.”

Here is the *2021 Barron's Roundtable Report Card* record for Roundtable participants' recommendations through the end of last year. The performance data is from Jan 8–Dec 31. The S&P 500 returned 27% including reinvested dividends. There were 10 participants listed in the report. Here are the results of an equally weighted portfolio based on their stock picks for each of the first three names listed and the two I believe are the most well-known (at least to me).

Roundtable Member	Number of Stocks Picked	Best Return	Worst Return	Weighted Portfolio
Todd Ahlsten	6	65.7	5.2	27.2
James Andereson	5	125.3	-27.8	30.8
Rupal J. Bhansali	5	53.1	3.5	18.5
Abby Joseph Cohen	7	74.3	-16.8	24.8
Mario Gabelli	11	35.7	-57.7	-1.3

Admittedly not scientific, but at least food for thought before placing your bet on the “experts.”

[2021 Barron's Roundtable Report Card | Barron's \(barrons.com\)](#)

IT'S BEEN A TOUGH YEAR IN THE MARKET

At least as I write this [5/6/2022] ...

Large 401(k)s Are Getting Hit Hard by Turbulent U.S. Stock Market ... Retirement Funds Are Getting Pounded by the Turbulent U.S. Stock Market

There are no positive returns so far this year among a list of the 100 largest 401(k) funds provided by data firm BrightScope, and all but 12 have posted double-digit losses. The ones that have done the best, suffering single-digit declines, are value-oriented or income-focused strategies, which weren't whacked as hard by the recent slump in U.S. tech stocks.

[Large 401\(k\)s Are Getting Hit Hard by Turbulent U.S. Stock Market \(fa-mag.com\)](https://fa-mag.com)

AND MORE FROM MY CALENDAR

- "Federal Agents Raid Gun Shop, Find Weapons"
- "This would have been Senna's third win in a row, if he'd won the two before." Murray Walker
- State Population to Double by 2040; Babies to Blame
- "When I was younger, I could remember anything, whether it had happened or not." Mark Twain
- "Do not allow children to play in dishwasher."
- "Growing old is something you do if you're lucky." Groucho Marx

ME TOO!



T-SHIRT WISDOM

Glossary of engineering terms:

Percussive maintenance = Hack it with your fist
High impedance air gap = It's not plugged in.
Cycle power to the panel = Turn off, then turn on again.
Thermally reconfigured = It melted.
Kinetic disassembly = It blew up.

I'm not arguing, I'm explaining why I'm right.

90 percent of being married is yelling "What?!" from other rooms.

And so ends another week without me winning the Lottery.

All dogs are therapy dogs. Most are just freelancing.

I sometimes wonder what happened to people who have asked me for directions.

VANGUARD'S THOUGHTS ON INCOME PORTFOLIOS

From Vanguard's *Putting a Value on Your Value: Quantifying Advisor's Alpha*

With yields on balanced and fixed income portfolios at historically low levels and expected to remain low relative to past standards, the value of advice has never been more critical for retirees. Historically, retirees holding diversified equity and fixed income investments could have easily lived off the income generated by their portfolios. Unfortunately, that is no longer the case. Investors who wish to spend only the income generated by their portfolio, referred to here as the "income-only" approach, have three choices if their current cash flows fall short. They can spend less, they can reallocate to higher-yielding investments, or they can spend from the total return on their portfolio, which includes not only the income or yield but also the capital appreciation.

As your clients' advisor, you can help them make the right choice. For many investors, moving away from broad diversification could actually put their portfolio's principal value at higher risk than spending from it. **Figure VII-1** outlines several common techniques for increasing a portfolio's yield, along with their impacts.

Figure VII-1. Income-only strategies and potential portfolio impact

Strategy	Impact on a portfolio (compared with a market-cap-weighted portfolio at the sub-asset-class level)
1. Overweighting of longer-term bonds (extending the duration)	Increases exposure to changes in interest rates
2. Overweighting of high-yield bonds and/or underweighting of U.S. Treasury bonds	Increases credit risk and raises overall volatility
3. Increasing exposure to dividend-centric equity	Decreases diversification of equity portfolio by overweighting certain sectors and/or increases overall volatility and risk of loss if it reduces the bond portfolio

Source: Vanguard.

REARRANGE THE LETTERS

Wouldn't want to play Scrabble with whoever created these. From my friend Leon.

Astronomer: Moon Starer

Desperation: A Rope Ends It

The Eyes: They See

Election Results: Let's Recount ... (This is my favorite.)

Snooze Alarms: Alas! No More Zs

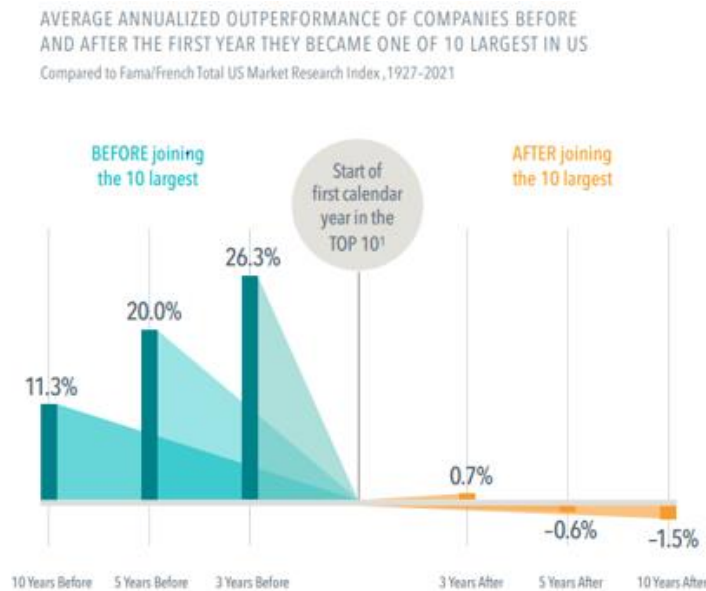
A Decimal Point: I'm a Dot in Place

The Earthquakes: That Queer Shake

REMEMBER – DON'T CONFUSE GOOD COMPANIES WITH GOOD INVESTMENTS

Research from DFA ...

As companies grow to become some of the largest firms trading on the U.S. stock market, the returns that push them there can be impressive. But not long after joining the Top 10 largest by market cap, these stocks, on average, lagged behind the market.



You might also check out my chapter “What a Great Company! I’ll Buy the Stock! How to Decide If You Really Should” in [Hello Harold](#).

HOPE SPRINGS ETERNAL

The board of the nation’s largest pension fund (California Public Employees’ Retirement System) voted to increase its leverage (i.e., borrowed money) and alternative assets to meet its investment-return target, even after lowering that target just a few months ago. It’s now “only” 6.8%.

The move by the \$495 billion California Public Employees’ Retirement System reflects the dimming prospects for safe publicly traded investments by households and institutions alike and sets a tone for increased risk-taking by pension funds around the country.

Chasing the end of the rainbow?

[Retirement Fund Giant Calpers Votes to Use Leverage, More Alternative Assets](#)

VALUE OF AN ADVISOR

From Vanguard’s *Putting a Value on Your Value: Quantifying Advisor’s Alpha*

Figure 1. The value-add of best practices in wealth management

Vanguard Advisor’s Alpha strategy	Module	Benefit of moving from the scenario described to Vanguard Advisor’s Alpha methodology
		Typical value added for client (basis points)
Suitable asset allocation using broadly diversified funds/ETFs	I	> 0*
Cost-effective implementation (expense ratios)	II	34
Rebalancing	III	26
Behavioral coaching	IV	150
Asset location	V	0 to 75
Spending strategy (withdrawal order)	VI	0 to 110
Total-return versus income investing	VII	> 0*
Range of potential value added (basis points)		About 3% in net returns

* Value is significant but too unique to each investor to quantify.

From Russell Investments’ *Value of an Advisor*

We believe in the value of advisors. And the numbers back up our belief. We see the potential advantages advisors create for your clients. This annual *Value of an Advisor Study* quantifies that dedication and the resulting benefit.

Four ways advisors create value ...

A is for active rebalancing of investment portfolios: 0.11%

B is for behavioral coaching: 2.37%

C is for customized experience and family wealth planning: 1.21%

T is for tax-smart planning and investing: 1.22%

4.91%—the value of advice in 2022

Russell Investments is an 86-year-old company managing \$326.3 billion on behalf of institutions, advisors, and the individuals they represent.

Don't know if the value E&K adds is 4.91% or some other amount; however, my "unbiased" opinion is it's significant.

[Putting a Value on Your Value: Quantifying Advisor's Alpha \(vanguard.com\)](#)

[Value of an Advisor Study \(russellinvestments.com\)](#)

MISLEADING!



Studies show that actively managed 401(k)'s generate 3.3% higher returns per year, net of fees, than accounts without active management. This compounding effect yields up to 76% more wealth over 20 years.

This is an ad I came across that references the Vanguard study. Unfortunately, the Vanguard study is related to the value of an advisor's advice and guidance, NOT active management—a BIG difference.

The Vanguard study "... outlines how you can add value, or alpha, through relationship-based services such as financial planning, discipline, and guidance, rather than by trying to outperform the market."

The term active management means that an investor, a professional money manager, or a team of professionals is tracking the performance of an investment portfolio and making buy, hold, and sell decisions about the assets in it. (Investopedia)

RETURNS, VALUES, AND OUTCOMES: A COUNTERFACTUAL HISTORY

This sobering (but not surprising) analysis was sent to me by my friend Craig Lazzara, Managing Director, Index Investment Strategy S&P Dow Jones Indices:

I thought you might be interested in the attached recent paper. We used long-term return data for the S&P 500 and data on active management from our SPIVA database to model the active-passive decision on a long-term (i.e. 40-year) basis. It won't surprise you to hear that the passive advantage, which is substantial enough in any given year, is overwhelming over a much longer period.

EXECUTIVE SUMMARY

In this paper, we construct a counterfactual history of the last 40 years of U.S. equity returns, and explore what those histories could imply for investment policy.

Although the range of possible outcomes is quite wide, one consistent conclusion is that long-term investors in large-capitalization U.S. equities would have been advantaged by choosing passive rather than active management.

FINAL THOUGHTS

Long-term investment results depend on a number of variables that an investor is powerless to influence. We don't know the true distribution of equity market returns; we can't control what the draws from that distribution will be during the years that are relevant for us; we can't choose the order in which those returns occur. One thing the investor can control is the choice between active and passive management. Overwhelmingly, the data show that passive portfolios outperformed active portfolios.

[Returns, Values, and Outcomes: A Counterfactual History](#)

A PLAN

How to avoid inflation risk from my friend Jane



TIMELY ADVICE

Warren Buffett, Jack Bogle, and financial planners agree: when stocks are down, “don't watch the market closely.”

While many investors saving for retirement may be wondering what to do in such a tumultuous market, Warren Buffett has said the answer is simple: Try not to worry too much about it.

“I would tell [investors], don't watch the market closely,” Buffett told CNBC in 2016 during a period of wild market fluctuations.

Like Buffett, the late legendary investor Jack Bogle also recommended a buy-and-hold strategy. He previously told CNBC that buying stocks and holding them was the best way to invest because “your emotions will defeat you totally” if you try to sell your holdings to avoid losses and get back in afterwards.

“Stay the course,” Bogle said in 2018. “Don’t let these changes in the market, even the big ones [like the financial crisis] ... change your mind and never, never, never be in or out of the market. Always be in at a certain level.”

Good advice and just what Evensky & Katz has been advising our clients for over 30 years.

[What Warren Buffett says to do when markets are down \(cnbc.com\)](https://www.cnbc.com)

MARKET TIMING

Here are a few more reasons to pay attention to Buffet and Bogle if you’re still looking to avoid a market drop. I hope these will make you reconsider.

First, a chart from DFA’s always excellent research. It shows that \$1,000 invested in 1997 by 2021 would have grown to \$10,367—that’s 25 YEARS!

Of course, if you missed the best week during that period (ending in 11/28/2008) you’d have \$8,652. Admittedly it’s only a week. Suppose you stepped aside for 6 months to avoid a market drop. If that 6 months was the period ending 9/4/2009, your ending value would only be \$6,728. That’s a week or 6 months out of a 25-year period!



[the-cost-of-trying-to-time-the-market.pdf \(dimensional.com\)](https://dimensional.com)

Next is a chart from [Russell's Value of an Advisor](#), specifically, the value of behavioral coaching (one of the primary benefits of working with E&K). The chart shows how an investor who had invested in January 2020 but panicked in March 2020 when the pandemic emerged and then tried to market time the reentry point would have fared through 2021.

B IS FOR BEHAVIORAL COACHING IN 2022
THE VALUE OF B IS 2.37%

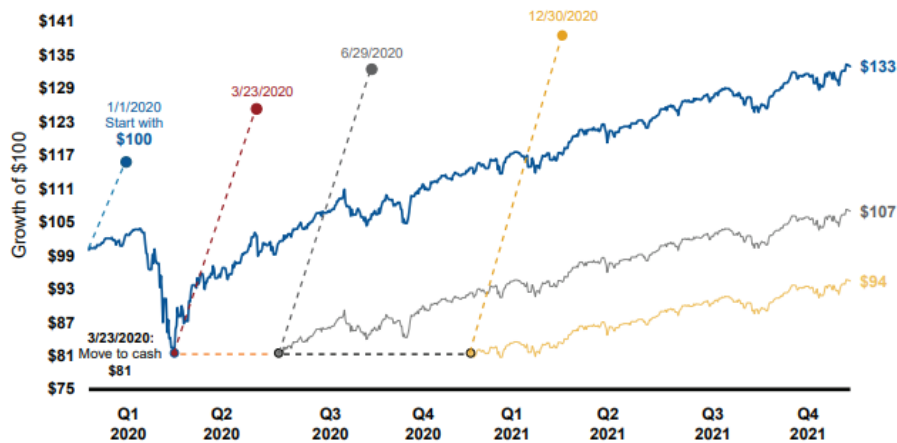
While 2021 didn't have the volatility of 2020, its relatively steady climb higher through the year confirmed the importance of remaining invested through thick or thin. An investor who fled for the exits in mid-March 2020 when the pandemic emerged, would have had a difficult time to find the best re-entry point, with no real market "dips" to take advantage of.

This is where the value from your behavioral guidance shows up on the bottom line. Take for example three hypothetical investors' journeys from January 2020 through December 2021:

- Investors who remained in the market for the full time period would have seen a \$100 investment rise to \$133 (blue line in the chart below).
- An investor who moved to cash in March 2020 and then returned to the market a few months later at the end of the second quarter, would only have \$107 by the end of 2021 (gray line in the chart below).
- An investor who moved to cash in March 2020 and remained in cash for the entire year, then re-entered the market at the beginning of 2021, would have only \$94 at the end of 2021 (yellow line in the chart below).

FEAR IMPACTS OPPORTUNITY

January 1, 2020–December 31, 2021



Source: Morningstar Direct. Balanced Portfolio: 60% S&P 500 Index and 40% Bloomberg U.S. Aggregate Bond Index. As of December 31, 2021.

That's the problem with abandoning an investment plan due to fear. Pulling out of the market when it is volatile can lock in losses and could lead to missing out on any subsequent rally. Without a crystal ball, it's hard to time the perfect point to get back into the market once you have left.

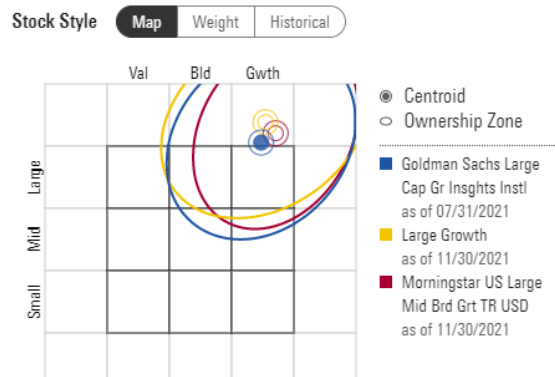
COMPARING ELEPHANTS TO ORANGES

Hot Goldman Sachs Fund Topped the S&P 500 Over Periods Long, Short

“The \$1.5 billion Goldman Sachs Large Cap Growth Insights Fund (GCGIX) is one of the best mutual funds. It earned that distinction by outperforming the S&P 500 over time periods long and short, including this year going into Dec. 22.”

Only problem is, GCGIX is NOT an S&P 500-type fund but rather a large-cap growth fund.

From Morningstar

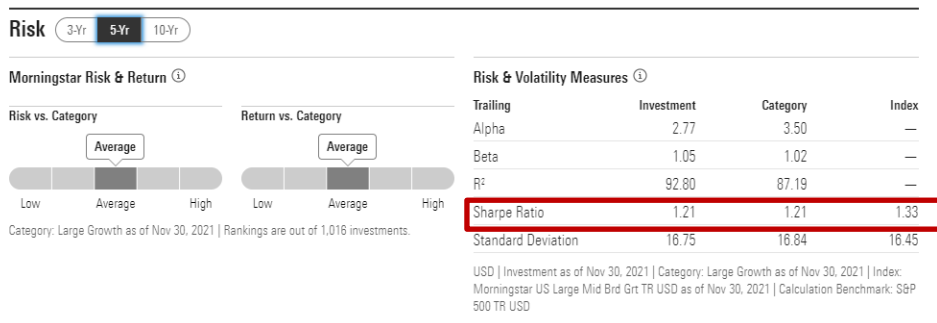


Comparing the fund performance to a more appropriate index shows a quite different picture. ILCG, the iShare Morningstar Growth ETF.

5 YEAR

GCGIX 84.1%
ILCG 93.7%

And remember, return is not the most important metric. Risk and return is the gold standard. The most common measure is the “Sharpe Ratio,” a measure that shows the return per unit of risk—the higher the better. Once again, GCGIX performance falls behind an alternative (and appropriate) investable index.



Finally, don't forget taxes. All that counts is what you keep after Uncle Sam takes his bite. Unless your investment is in a sheltered account, the tax bite might even torpedo the best returns. How do these two funds compare? GCGIX is a tax disaster.

3-YEAR TAX-COST RATIO*

<u>CGCIX</u>	<u>ILCG</u>
2.31	0.16

Bottom line, one more time financial pornography leads to lousy investment decisions. Don't just stop at the headlines when you're making your investment decisions.

*The tax-cost ratio compares a fund's load-adjusted, pretax return to its tax-adjusted return. The resulting number represents the percentage of an investor's assets that are lost to taxes.

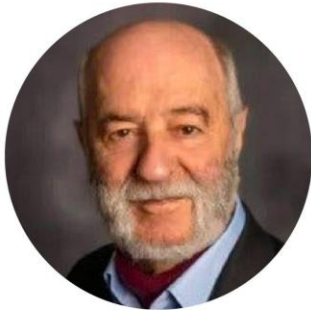
[Best Mutual Funds: This One Topped The S&P 500 Over Periods Long, Short | Investor's Business Daily \(investors.com\)](#)

BUCKETS

I developed the E&K Bucket Strategy to manage cash flow needs in a bear market back in the 80's and have enjoyed pontificating about it for many years but the best ever was an interview I did for Barron's not long ago while on vacation in Key West.: [Cash Buckets Are Earning Their Keep as Markets Slide. Just Don't Hold Too Much](#)



All my best,



Harold Evensky

FOUNDER

EVENSKY & KATZ / FOLDES FINANCIAL WEALTH MANAGEMENT

Important Disclosure Information

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Evensky & Katz/Foldes Financial Wealth Management ["EK-FF"]), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from EK-FF. EK-FF is neither a law firm, nor a certified public accounting firm, and no portion of the commentary content should be construed as legal or accounting advice. A copy of the EK-FF's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request or at www.evensky.com. Please Remember: If you are a EK-FF client, please contact EK-FF, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of

reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. Please Also Remember to advise us if you have not been receiving account statements (at least quarterly) from the account custodian.

Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your EK-FF account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your EK-FF accounts; and, (3) a description of each comparative benchmark/index is available upon request.

Please Note: Limitations: Neither rankings and/or recognitions by unaffiliated rating services, publications, media, or other organizations, nor the achievement of any professional designation, certification, degree, or license, membership in any professional organization, or any amount of prior experience or success, should be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if EK-FF is engaged, or continues to be engaged, to provide investment advisory services. Rankings published by magazines, and others, generally base their selections exclusively on information prepared and/or submitted by the recognized adviser. Rankings are generally limited to participating advisers (see link as to participation criteria/methodology, to the extent applicable). Unless expressly indicated to the contrary, EK-FF did not pay a fee to be included on any such ranking. No ranking or recognition should be construed as a current or past endorsement of EK-FF by any of its clients. ANY QUESTIONS: EK-FF's Chief Compliance Officer remains available to address any questions regarding rankings and/or recognitions, including the criteria used for any reflected ranking.