EVENSKY & KATZ / FOLDES FINANCIAL
WEALTH MANAGEMENT

NewsLetter Vol. 13, No. 1 – February 2020

DEAR READER:

CAVEAT EMPTOR

I'm not sure how comfortable this would make me feel if I were a client; however, as Barbara Roper notes at the end, it is an impressive effort to meet the new CFP Board standards.

"Northwestern's CFP disclosures put industry's fraught questions in focus" – *Financial Planning*

"More than 1,000 CFPs affiliated with Northwestern Mutual now have to make their conflicts of interest abundantly clear and explain how they manage them in clients' best interests.

"The insurer and broker-dealer has created a disclosure document intended to comply with the CFP Board's new code of ethics and standards of conduct. In the document, advisors tell planning clients outright that they're incentivized to 'sell Northwestern Mutual insurance products to a client often' – and for the highest possible commissions.

"The CFPs at Northwestern also have a financial interest in selling permanent life insurance with higher initial premiums than term products. They're encouraged 'to sell more expensive products and services to you which will have the effect of increasing my compensation,' the document states. They can be paid on an ongoing basis for selling a Northwestern variable annuity in a brokerage account with less than $50,000, but not for selling a mutual fund, the brochure says.

"'I know that in the long run, I will benefit most by serving you well,' it says later. 'Your interests and my interests align in this respect because I rely heavily on the referrals I receive from satisfied clients. This in itself helps to mitigate the material conflicts of interest described above.'"

Financial Planning obtained the remarkable 8-page template, which is entitled "My commitment to you as a CFP professional." The traditional brokerage and insurance incentives don't stand out as much as the firm's "sincere effort to explain those conflicts clearly," according to Barbara Roper, director of investor protection for the Consumer Federation of America.

"I've read a lot of these types of documents over the years, and this is clearer than most, Roper said in an email."

https://www.financial-planning.com/news/northwestern-mutual-cfps-disclose-conflicts-of-interest-under-new-standards

STAR SPANGLED BANNER AS YOU'VE NEVER HEARD IT

https://youtu.be/YaxGNQE5ZLA

And my friend Freddie said they left out the last two words: "Play ball!"
He also added some background… https://www.smithsonianmag.com/history/the-story-behind-the-star-spangled-banner-149220970/

CREDIT SCORE MYTHS

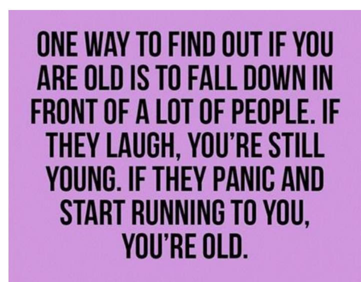
From the *Wall Street Journal:*

"Some common myths include: checking credit scores can hurt the credit score (a 'hard inquiry' where a financial firm is evaluating a potential loan so you can have an impact, but a 'soft inquiry' like an employer conducting a background check does not, nor does a soft inquiry of checking your own credit score); paying bills on time is all you need to worry about (it's not, as 'credit utilization' also matters, because paying on time but always being maxed out is a negative compared to 'just' using 30% of your available credit each month, which can be remedied by spending less *or* simply asking for a credit limit increase); carrying a balance helps boost the credit score (it doesn't; it just racks up interest charges!); closing an old card with a high interest rate will help (it doesn't, and closing a long-standing card can actually reduce the score by reducing the average age of your credit accounts); opening a new retail card at a 0% rate is good for your score (it's not; it's a hard inquiry that's more likely to reduce the score); shopping for a mortgage/auto/student loan hurts the credit score (hard inquiries matter, but if multiple hard inquiries come together, they're bundled together as a single query and recognized as a single transaction that reflects the borrower is likely just shopping around); and assuming credit reports are accurate in the first place (the FTC found in 2012 that 21% of consumers had errors, with 5% of the cases so serious it impaired their credit… which means it really *is* important to monitor your credit score to ensure credit events are being reported properly!)"

https://www.wsj.com/articles/9-myths-about-credit-scores-11571623800

SMILE FOR THE DAY

From my friend Bill



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WEALTH MANAGEMENT

NewsLetter Vol. 13, No. 1 – February 2020

MORE SMILES

From my friend Judy

EXCLUSIVE: CALPERS FIRES MOST OF ITS EQUITY MANAGERS

Excerpts from *Chief Investment Officer*

Better late than never?

In a major investment move, the California Public Employees' Retirement System (CalPERS) has terminated most of its external equity managers, slashing their allocation to $5.5 billion from $33.6 billion. Only three of 17 external equity managers have been spared in the reduction …

The memo, which has not been publicly discussed, says the moves are necessary because of long-term underperformance. The memo obtained by CIO says that Meng is putting a "renewed focus on performance and our ability to achieve our 7% assumed rate."

Meng, who took over as CalPERS's CIO in January, has repeatedly expressed concerns, not only about CalPERS achieving the 7% assumed rate of return …

"Over the last five years, traditional managers have underperformed their benchmarks by 48 bps and emerging mangers by 126 [bps]," the memo says…

Over the last decade, CalPERS has moved to managing most of its $187 billion in equities in-house***, the majority of the strategies index-based*** [my emphasis]…

Good luck on the 7% assumed rate of return!

https://www.ai-cio.com/

CAPABLE

If you or a family member is facing health issues threatening their ability to remain in their home, you might check CAPABLE. The Community Aging in Place—Advancing Better Living for Elders (CAPABLE) project addresses both function and cost. CAPABLE is a program developed at the Johns Hopkins School of Nursing for low-income seniors to safely age in place. The approach teams a nurse, an occupational therapist, and a handyman to address the home environment and uses the strengths of the older adults themselves to improve safety and independence.

https://nursing.jhu.edu/faculty_research/research/projects/capable/

SOME INTERESTING TID BITS

From my longtime friend David:

THE RISK OF JUST ONE STOCK: 56 individual stocks within the S&P 500 are up at least +50% YTD through the close of trading last Friday, 11/29/19, including 11 stocks that are up at least +75% YTD. There are also 13 stocks that are down at least 30% YTD, including 4 stocks down at least 50% (source: BTN Research).

NEVER BEFORE: The USA exported more barrels of crude oil and petroleum products in both September and October this year than it imported, the first time that our nation's oil exports have exceeded its imports based upon monthly records maintained since 1949; i.e., the last 70 years (source: Energy Information Administration).

THE KIDS INHERIT AND THEN THEY SELL: There are 79.5 million owner-occupied homes in the United States as of 9/30/19. By the year 2037, 21 million of the 79.5 million homes (26% of all current homes) are projected to have a change of ownership as the "Baby Boomer" generation dies. (source: Zillow).

HEALTH INSURANCE: In 2018, the average American employee paid $453 per month for his/her family's health insurance coverage through an employer-sponsored plan. That $453 amount represented 28% of the total cost of the insurance coverage; i.e., the employer paid $1,164 per month (source: Commonwealth Fund).

LONG-TERM GUESS: When President Franklin D. Roosevelt proposed the Social Security retirement program in 1935, FDR's financial people projected that total Social Security expenditure would reach $1.3 billion in 1980, or 45 years into the future. The actual Social Security outlays in 1980 were $149 billion. Thus, the analysts' 1935 estimate represented less than 1% of actual 1980 Social Security expenditures (source: Social Security).

SAME SONG, SECOND VERSE

From the S&P Persistence Scorecard

For funds categorized as top performers in September 2017, 47% maintained their top-quartile performance the subsequent year. However, there was a dramatic fall in persistence afterward—just 8% of domestic equity funds remained in the top quartile in the three-year period ending September 2019. This result (8%) is consistent with the notion that historical performance is only randomly associated with future performance.

An inverse relationship exists between the time horizon length and the ability of top-performing funds to maintain their success. Less than 3% of equity funds in all categories maintained their top-quartile status at the end of the five-year measurement period. In fact, no large-cap fund was able to consistently deliver top-quartile performance by the end of the fifth year.

https://www.etftrends.com/equity-etf-channel/volatility-did-not-help-active-managers-persistence-scores/

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DOESN'T MATTER WHERE YOU LIVE

From the S&P Persistence Scorecard – Latin America

Brazil…regardless of size focus, by the fourth year, no fund remained in the top quartile. Fixed income painted a slightly different picture than equities.

Chile…just 27% of top-performing funds in the first 12-month period repeated their outperformance in the subsequent period. This rate dropped to 9% in the third period and to 0% in the fourth and fifth periods.

Mexico … After one year, just 18% of managers remained in the top quartile, and by year two, the percentage dropped to zero… Top-quartile managers in the first five-year period were more likely to move to the bottom quartile (38% of managers) in the second five-year period than to any other quartile.

https://us.spindices.com/documents/research/persistence-scorecard-latin-america-december-2019.pdf?utm_source=marketo&utm_medium=email&utm_campaign=email_campaign&utm_content=scorecard_persistence_latam_english_1912&mkt_tok=eyJpIjoiTURBNE9UQTBOV1JpTXpZMSIsInQiOiIwNTJmOEJFRThXZWxCWXNaTUp4OTR0XC94Uklqck5GNFZJOWhxXC9Eb3I3aXVBcm83OWE2SUdTOWxNNXVVSFZsdnlWNjI4ank0R3ZVQ3VPVnh2SFNWSGIsM1B1TGkrOFhTdm1Db0pDWjhsdkg3WVBicmV6UmRVckc1QkpyK1ZqQ2c2In0%3D

INDEX FUNDS BREAK THROUGH $10 TRILLION IN ASSETS MARK AMID ACTIVE EXODUS

Financial Times

https://www.ft.com/content/a7e20d96-318c-11ea-9703-eea0cae3f0de?ftcamp=engage%2Femail%2Fnewsletters%2Fsmart_brief%2Fsmartbriefnewsletterscontrafcf%2Fauddev&segid=0800933

GEOGRAPHY LESSON

From my friend Peter:

It may not come as a surprise , but more people live inside the circle than outside it.

This map shows the countries (in blue) where people drive on the left side of the road.

This map shows (in red) the countries that don't use the metric system.

HOW ABOUT CHASING "WINNING" COUNTRIES?

From Dimensional Fund Advisor's "Hindsight is 20/20. Foresight Isn't."

Developed Economies

2018		2019 YTD	
Finland	−3.43%	Switzerland	25.19%
New Zealand	−3.97%	Netherlands	24.45%
USA	−5.04%	Ireland	24.37%
Israel	−5.48%	Italy	23.22%
Hong Kong	−7.83%	USA	22.67%
Norway	−8.63%	Canada	21.30%
Switzerland	−9.08%	France	20.05%
Singapore	−9.41%	New Zealand	20.02%
Portugal	−11.09%	Australia	19.92%
Australia	−11.99%	Portugal	19.08%
France	−12.76%	Denmark	17.74%
Japan	−12.88%	Japan	16.51%
Netherlands	−13.11%	Germany	16.40%
Sweden	−13.68%	Belgium	15.61%
United Kingdom	−14.15%	Sweden	14.65%
Denmark	−15.43%	United Kingdom	13.18%
Spain	−16.19%	Austria	13.08%
Canada	−17.20%	Singapore	12.84%
Italy	−17.75%	Spain	7.99%
Germany	−22.17%	Hong Kong	7.67%
Ireland	−25.31%	Israel	6.15%
Belgium	−26.93%	Finland	6.11%
Austria	−27.44%	Norway	5.13%

The moral? Stop chasing "winners"; it's a losing strategy. 12/2/2019

WHO'S RICH?

From my friend Monty:

Who are the top one percent by income?
The cutoff for a top 1% household income in the United States in 2019 is $475,116.

Percentage Threshold	*10%*	*1%*	*0.10%*
Individual Income	$116,250	$328,551	
Household Income	$184,200	$475,116	
Net Worth	$1,182,390	$10,374,039	$43,090,281

Full story at https://dqydj.com/top-one-percent-united-states/

WHY I DON'T MAKE NEW YEAR'S RESOLUTIONS

From *Parade*

80% – That's the percentage of New Year's resolutions that fail by February.

MY BIGGEST INVESTMENT LESSONS

https://finance.yahoo.com/news/biggest-investment-lessons-102600254.html?guccounter=1

Excerpts from Christine Benz, one of my favorite commentators. Christine is director of personal finance at Morningstar.

Investing is Overrated …
I'm not saying you shouldn't invest. You absolutely should. It's essential. End of story. What I am saying, however, is that investing is the attention hog in many discussions about how to reach financial goals. It's sexy, there's often a current-events hook to explain why the market is behaving as it is, and hitting it big with an investment doesn't usually require any sort of sacrifice. But, ultimately, your boring pre-investing choices – like your savings rate and how you balance debt paydown with investing in the market – will have a bigger impact than your investment selections on whether you amass enough money to pay for retirement or college. (I call these types of pre-investment decisions your "primordial asset allocation.") If your savings rate is high enough and you start early enough, that can make up for some lackluster asset-allocation and investment-selection choices. The flip side is also true: If you haven't saved enough, great investment picks probably won't be enough to save you.

Beware the Latest Fad …
In a related vein, I've seen enough to conclude that many new products that come to market don't actually help improve investor outcomes. Rather, they're an effort to help investment firms capitalize on what's hot and generate fees on new assets.

Get Some Help in Retirement …
Most people approaching or already in retirement could benefit from another set of eyes on their plans, to help ensure that their withdrawal rate system is sustainable, that they're being tax-efficient with their withdrawals, and so on. Having a financial adviser who knows what's going on in your financial life and portfolio is also the gold standard for helping ensure that nothing falls through the cracks if you become incapacitated or die.
While the traditional investment advice model requires investors to pay a percentage of their assets year in, year out, soon-to-retire and retired investors who are confident in their abilities can pay for advice on an hourly or per-engagement basis. That will be more economical than paying for ongoing advice or oversight; the downside is that the hourly or per-engagement advisor won't be looking over your portfolio unless you ask for help. So, it's a trade-off.

S&P HINDSIGHT DASHBOARD

- In sharp contrast to last year, US equities triumphed in 2019, with the S&P 500® up 31%, its biggest annual gain since 2013. Easing trade tensions and Fed accommodation renewed optimism about the economic outlook. Mega-caps dominated as gains for the S&P MidCap 400® and the S&P SmallCap 600®, 26% and 23% respectively, lagged the S&P 500.
- International markets also gained, with the S&P Developed Ex-US BMI up 23% and the S&P Emerging BMI up 20%.

High Beta was the best performing factor, followed by Quality; not unrelatedly, Information Technology was the best performing sector, up a remarkable 50%. Meanwhile, Value outperformed Growth for the first time in three years.

FROM MY FRIEND PETER

The biggest lie I tell myself is, "I don't need to write that down, I'll remember it."

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NewsLetter Vol. 13, No. 1 – February 2020

FAT TAILS

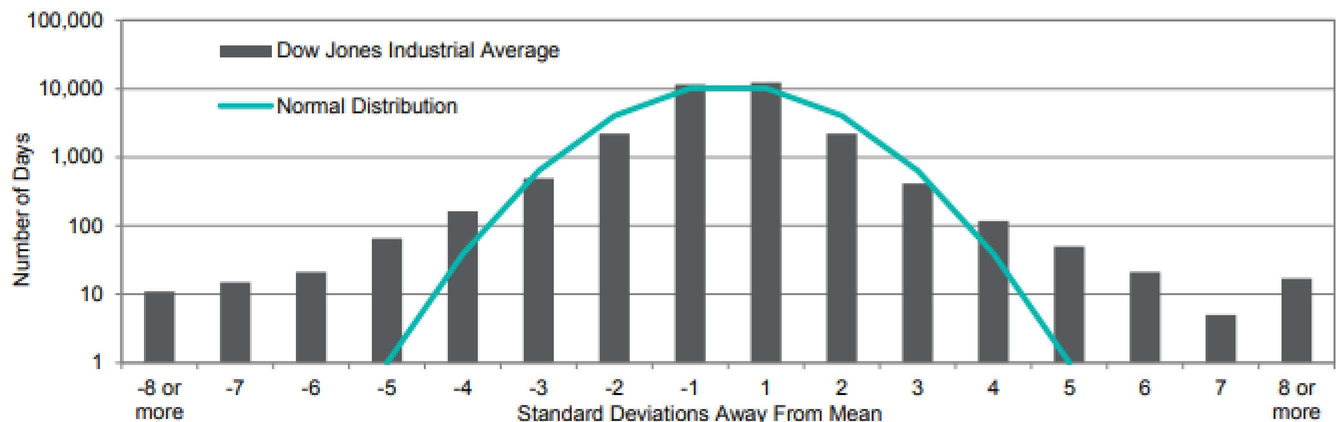
Why markets can be far more volatile than simple statistics might suggest.

– From S&P DOW Jones Indices: *The Landscape of Risk*

https://us.spindices.com/documents/research/research-the-landscape-of-risk.pdf

The tails of the distribution embody a second key feature, which also distinguishes real-world equity markets from their simplest models. Exhibit 3 shows the number of days in history on which the DJIA moved by various amounts, grouped by the multiple of standard deviations that particular day's move represented. Note that the scale of the vertical axis is logarithmic in order to emphasize the (otherwise pixel-tall) frequency of extreme events.

Exhibit 3: Non-normality and "Fat Tails" in the DJIA Daily Returns



Source: S&P Dow Jones Indices LLC. Data from July 1896 to July 2014. Charts and tables are provided for illustrative purposes. Past performance is no guarantee of future results.

The distribution of daily returns is far from normal.[2] Overlaid onto the distribution, the line graphed in Exhibit 3 indicates the expected number of days in each category if such returns followed the bell curve of a normal distribution. (Remember that the vertical scale is logarithmic, which is why the line does not look much like a bell.)

Exhibit 3 demonstrates that, when it comes to estimating the likelihood of extreme events, **the margin of error from an assumption of normality can reach astronomical proportions**. If daily returns were normal, even allowing for the lengthy history of the DJIA, one would still not expect to see any daily movements greater than five standard deviations away from the mean. Assuming a normal distribution and the historical average annual volatility of 18%, a 10% single-day loss in the DJIA would be expected roughly once every 3,000 trillion years. In reality, there have been six such instances, the most recent being the October 1987 "Black Monday," when the DJIA fell by 22%.

Simply put, **large movements occur with far greater frequency than one might otherwise expect** and, as shown in Exhibits 1 and 2, returns in volatile environments are negatively biased. Taken together, these observations describe the lethal cocktail that is volatility. They also help explain the increasing popularity of tools designed to mitigate the extreme peaks and valleys of investment performance. From hedge funds and tactical strategies to the ever-increasing trading volumes on VIX® futures, avoiding volatility or otherwise attempting to manage it underpins a large part of the modern professional focus of investing.

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SOBERING

More from my friend Peter

This is a map of the highest paid public employees in the US. (It is quite telling as to where our 'priorities' lie)

Apparently you can't get Big Macs everywhere. This map shows (in red) the countries that have McDonalds.

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WEALTH MANAGEMENT

NewsLetter Vol. 13, No. 1 – February 2020

MORE CAVEAT EMPTOR

"It's 2020, and the chase for big commissions is back" – *Investment News*

"As 2020 opens a new year and decade, the broad financial advice industry is working to make it easier for brokers and financial advisers to sell high-priced, high-commission, complex products to clients, with the focus on tapping retirement accounts that hold trillions of dollars in investor savings."

https://www.investmentnews.com/its-2020-and-the-chase-for-big-commissions-is-back-176057

THE MORAL? PROTECT YOURSELF WITH THE FIDUCIARY OATH

PUTTING MY CLIENTS' INTERESTS FIRST

I believe in placing my clients' best interests first. Therefore, I am proud to commit to the following five fiduciary principles:

- I will always put my 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 I 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 my clients' favor, any unavoidable conflicts.

Advisor ____________________

Firm Affiliation ____________________

Date ____________________

TIME IN THE MARKET, NOT MARKET TIMING

An update of a classic study from DFA.

https://www.mydimensional.com/what-happens-when-you-fail-at-market-timing

MORE TIME IN THE MARKET, NOT MARKET TIMING

From a study by Wayne Thorpe, senior financial analyst at the *American Association of Individual Investors Journal*, via my friend Clark Blackman's most excellent client letter.

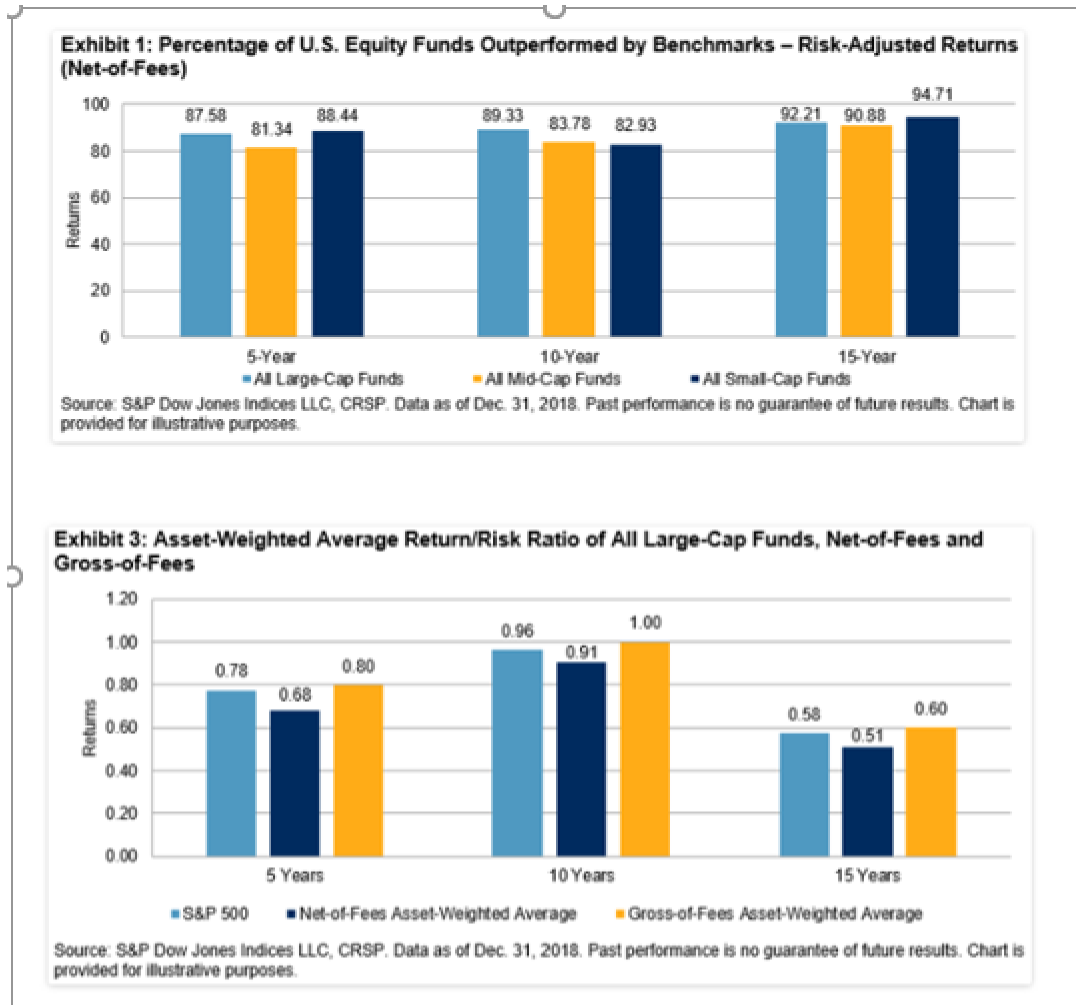
How painful is it if you don't market time and have to live through a market downturn?

Since 1871, market downturns have recovered as follows:

- 33% of market downturns recover within a month
- 50% of market downturns recover within 2 months
- 80% of market downturns recover within 1 year
- 95% of the time those big "once or twice in a lifetime drops" return to even in 3 to 4 years.
- Collectively, since 1871, the time it takes for the market to recover (top to trough to top again) is a mere 7.9 months!

DISPELLING THE MYTH

Some interesting charts from Berlinda Liu's (Director, Global Research & Design, S&P Dow Jones Indices) blog, **"**Are Active Funds Better at Managing Risk? Not Really.**"**



And S&P's conclusion:

> Our analysis dispels the myth that active management possesses better risk-management skills than passive indices. Moreover, any perceived advantage in higher risk-adjusted returns quickly disappears once fees are accounted for.

https://www.indexologyblog.com/2019/06/05/evaluating-active-versus-passive-performance-through-a-risk-lens/?utm_source=marketo&utm_medium=email&utm_campaign=email_campaign&utm_content=blog_top_posts_2001&mkt_tok=eyJpIjoiTmpreE16UXpOVGN3TTJNeilsInQiOiJLR0VFXC9QczhlMThldm5FemRKXC9iQUo2eWpqSGpsa1VaUEhIQ0JmS0RyUGx4WHUrR1FwczZGdjVaZTI0NGkrQ1d2R3FESU1Hcm9mR1dKRTM2K0pHTzFzcU0rXC85WGRLcU10YzFDcHNVV001QnhlemJ1SDZXd3p2blJTbWJNZG1keiJ9

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

Harold Evensky
Chairman
Evensky & Katz / Foldes Financial Wealth Management

<u>Important Disclosure</u>

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