3rd quarter commentary October 12/2016

"What's the market going to do??" Or here's one I hear occasionally..."I don't wanna invest cause the world's a mess and everything's gonna come tumbling down soon."

Another with a sentiment that I don't disagree with "the stock market's inflated so there's nothing decent to invest in. And by the time I do invest with my luck it will do nothing but go down from there."

Real emotions from sometimes fairly savvy people. And the reality is most people's investments ARE totally tied to what the market does. I look at brokerage statements all the time. They're pretty much all the same, doesn't matter whether it's Edward Jones, Morgan Stanley or pick about any insurance company. It goes something like this: ABC Stock Fund, ABC growth fund, XYZ bond fund, and a smattering of other funds with names like value, growth, balanced, and on and on....blah....blah..blah.

This is because you need a "balanced" portfolio they tell you. Or diversification. Everyone has to have some diversification. True to some extent, but a concept that is overused and over sold and misunderstood by most.

I look at those statements and think to myself, well yeah you are diversified but the problem here is all of these funds are positively correlated. That's just fancy investment speak that means they move in the same direction most of the time. (By the way in the old days stocks and bonds were inversely correlated. One went up the other went down. Easy peasy. However because of central bank intervention and other policies this is no longer true) So in other words one goes down they all go down. If all your assets are positively correlated than diversification is meaningless. It's the life raft on that flight from Las Vegas to LA. Nice to have but it probably won't do you any good in an emergency. And that dear reader is what I see most if not all of the time.

The reality is my farmer who commented above that assets are inflated is absolutely correct. That's what happens when you have a decade or more of "economic stimulation." So investing today is fraught with danger. But it's fraught with danger most of the time. I would argue today its a little more pervasive.

He knows that farmland has been selling at record highs. Another symptom of an overstimulated economic environment? Yes. Of course it is. Are farmers selling in mass? No of course not. Some of the older ones maybe. And inherited land goes on the auction block all the time. But young farmers are going about their business. Why? Because farmland has PRODUCTIVITY. There's a return tied to that farm. You can calculate how many bushels your going to produce stick in a price and presto you can figure out what your going to make. Some years are better than others obviously. But over time your return has to warrant your time and investment.

Investments in the form of stocks and bonds also have PRODUCTIVITY. And you can calculate that also. And that's how we invest. Not with the mindset that the markets going to go up and we're going to magically sell and presto we make a bunch of money. With many of our investments we don't really care what the markets going to do because just like that family farm over time they are very productive.

Also unlike our investing brethren at Ed Jones and others many of our core investments are not correlated with the stock or bond market. The market goes down a lot many of them won't move much if at all. Now the truth is you can't totally insulate your portfolio from the movements of Mr. Market. I only know one guy who could do that. His name was Madoff. (By the way I have a great personal story about Bernie Madoff. I won't tell it here but if you see me remind me and I'll tell it.) But you can make investments that stand on their own merit. Just like that family farm.

And that dear investor is what I try to do. It's somewhat contrarian. It's totally different from your brokerage account. Your Edward Jones guy says it can't be done.... Some I'm not sure really care. The result of my contrarianism is that we're out of sync with the market from time to time but that's okay. We don't care. We have investments that will perform well regardless of what manic behavior Mr. Market exhibits. Some might have expiration or maturity dates. The point is they will move over time based on their own merits.

Conversely many of the stocks we own ARE correlated to the market and will go up and down with it. We can't totally diversify that reality away. But what's more important is that they are PRODUCTIVE and sustainable through market mayhem.

So understand that. We don't invest with the mindset that the tide will always rise lifting all our client boats. Investments are expensive these days it just won't happen. Index investors? Sorry, it could be a long decade for you.

If my little essay doesn't make any sense to you than I appreciate you reading and I wish you the best. If you want to learn more about how we do that than read on.

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