The Financial Navigator – September 2015 Newsletter

Greeting and welcome to the first days of fall. With the recent stock market volatility I thought the article, *The Dog Days of Late Summer*, presents a contrarian view of the decrease in the stock market that might be worth a consideration. *Guess Who Has a Below Index Track Record* compares Donald Trump's fortune to what he might have created if he just invested his inheritance in a simple index fund. I am not making a political statement, but it is something I found interesting since all of us have that investment vehicle available to us. *Peace in Our Time* makes the case that despite the headlines about ISIS, the refugee crisis and many other events, we may be in the most peaceful time in our history.

Enjoy the fall, and as always feel free to forward this email to anyone that may share your interest, and let me know if you have questions about a specific situation.

Sincerely,

Bill Simpson, CFP®, MBA
Azimuth Financial Planning, LLC
(603) 373-8793
bsimpson@azimuthplanning.com
www.azimuthplanning.com

The Dog Days of Late Summer

Chances are, these days you're sneaking a peak at the investment markets, probably more than once a day. They've certainly been providing their share of excitement: down 4% one day, up more than 2% the next day or two, and who knows what's causing the turmoil?

In August, the direction was mostly down, turning what had been tentative gains for the year into (as yet) relatively modest losses. And there wasn't a lot of value in diversification. Large cap, midcap and small cap U.S. stock indices all dropped between

5.5% and 6%, real estate fell about the same and foreign stocks dropped roughly 7% over the same time period. Commodities did worse.

Analysts are scrambling to tell us why, one day, the markets are down sharply, and then come up with a reason why, the next day, they're back up again. One long-term trader remarked, watching these swings, that the fact that the Dow can fall 1,000 points and then recover 700 in the space of four hours is prima facie evidence that there is no rational explanation for what's going on. We hear that the weakness in the Chinese economy, or its stock market, are causing U.S. stocks to somehow be less valuable, but does anybody really believe that?

Meanwhile, the doomsayers are predicting catastrophe—which is not well-defined, but seems to mean that U.S. companies will be 30% to 50% less valuable in a few weeks than they are today. Their solution? Buy gold! It's helpful to remember that $10 invested in gold in 1926 would be worth $615 today. Ten dollars invested in the stock market would be worth $55,000.

Perhaps the most interesting analysis came from Jason Zweig, who writes an investment column for the Wall Street Journal. He said that this would never happen, but what if there were a Ben Graham TV channel, Warren Buffett's mentor, which provided market commentary based on the teachings of the father of value investing? You'd have the host coming on to announce some great news: stocks today are unexpectedly on sale, selling, on average, 4% cheaper than they did yesterday. Will this great news continue, or should we take advantage of the buying opportunity while it lasts?

The guest that day offers his hope that the markets will continue their downward rally, making stocks even cheaper to buy. But he's not optimistic, given the fact that stocks seem to get relentlessly more expensive over time, and have been doing this, with some regularity, since the early 1800s. Still, one can hope for a sustained downturn that would provide a chance to buy at prices even lower than they are today.

The host and guest console themselves with the thought that finally, for the first time in seven years, we may finish out the year with an opportunity to buy stocks for less than they cost on January 1.

We may not get that lucky, and the markets may continue their bull run. Nobody knows what you're going to see the next time you check the investment tables, or what will happen between now and the end of the year—except this: the actual value of American and global companies won't be affected by the mood swings of investors who lurch between an inclination to buy and an inclination to sell. Whatever those underlying values are, the markets will eventually return to them, however much of a bargain the market decides to offer us between now and then.

Guess Who Has a Below-Index Track Record

A certain Presidential candidate has pointed to his business and investment credentials as some of his most important qualifications for office, and the fact that he's a billionaire (Bloomberg estimate: $2.9 billion, give or take a few hundred million) seems to back that up. But if you go back and calculate The Donald's rate of return on the $40 million he inherited from his father, it actually offers an interesting investment lesson.

There is no doubt that Donald Trump has been an active investor since he got his start in 1974. He's experienced well-publicized bankruptcies, invested in ill-fated casinos and developed premier New York properties that he named after himself. He even owned the sports franchise that was Heisman Trophy winner Herschel Walker's first place of employment. People wear Donald Trump ties, and get addicted to his TV show where, with each episode, somebody gets fired.

But when a National Journal reporter compared Trump's business earnings against what he would have made had he had simply invested that $40 million in a stock index, he found something very interesting. If Trump had simply invested his inheritance in the Vanguard mutual fund that tracks the S&P 500 index, with dividends reinvested and all taxes paid, The Donald would have been worth $3.4 billion as of the end of August 2015. In other words, a strategy that you and I and the janitor of one of Trump's buildings could have easily followed would have easily beaten 41 years of legendarily successful real estate investing.

But is that a fair comparison? Trump's early years were undoubtedly not his best, and probably not representative of his business skills later in his career. The same analysis shows that Trump's net worth had climbed to $200 million by 1982, after a brief recession. If that money had been invested in the same low-cost mutual fund, Trump would have been worth $6.3 billion today, after all taxes had been accounted for—more than twice his current estimated net worth.

The lesson? It's not to say that Donald Trump hasn't been a successful real estate investor, or that his business skills are not up to the political job he's seeking. The real lesson here is that it's very hard, even for professionals, to grow your money as efficiently, and rapidly, as the aggregate of America's largest companies do on a routine basis. The competition is between one person making deals, and all the business leaders of all the major corporations plus all their employees making decisions and working to build value every day.

When an individual with a Vanguard 401(k) can boast an investment track record greater than The Donald, then perhaps we should recognize that America's corporations have been doing something right for their shareholders—and that successful investing isn't that hard after all.

Source:

http://www.vox.com/2015/9/2/9248963/donald-trump-index-fund

Peace in Our Time

What was the most peaceful era of human history? The 200-year-long Pax Romana in the Roman Empire? The peaceful period in Asia following the Mongol conquests? The Ming dynasty in China?

You probably haven't considered our present times, since we're constantly reading about the spread of ISIS, incursions by the Taliban in Afghanistan, and what appears to be an escalating conquest of Ukraine by neighboring Russia. Every day you read about the threat of terrorist attacks.

But evolutionary psychologist Steven Pinker, author of "The Better Angels of Our Nature," has compiled statistics which make a compelling case that fewer people are dying as a result of violence in today's world than at any time in history. The wars we hear about are relatively contained—when you add up the populations of Syria, Iraq, Afghanistan and eastern Ukraine (and not every citizen in those nations is directly impacted by war), it comes to just 1.37% of the world population. And the peaceful zones in between are much greater in this century now that we've given up the habit of waging world wars.

Pinker offers some interesting perspectives; for instance, deaths in warfare among certain aboriginal tribes in New Guinea and Fiji were higher than in Germany throughout two world wars. But his definition of peace is broader than simply fewer armed conflicts; he also takes into account murder rates and civilian violence in countries around the world. The murder rate during the gold rush in California was among the highest in recorded history; today, California is hardly a bastion of violence. In Europe, torture and public executions were common, and it was not uncommon to see severed heads resting on spikes as you entered a city. Today this kind of thing is rare globally and virtually nonexistent in the Western states. Slavery has been abolished, and the laws have had a significant dampening effect on the once-common instances of rape, infanticide, lynch mobs and cruelty to animals.

The conclusion of the book is that not only are we living in the most peaceful time in world history, but that this may be the least-appreciated development in the history of our species.

Which countries are the most and least peaceful? For that information, you turn to the Global Peace Index, which was created by the Economist magazine from data compiled by the Institute for Economics and Peace. The methodology is detailed; each country is ranked based on its relations with neighboring countries (being at war earns a low score; the U.S./Canadian border earns the highest); level of internal conflict (countries embroiled in civil wars receive low scores); political instability; terrorist activity; number of homicides per 100,000 people; level of violent crime; number of jailed persons per 100,000 citizens; military expenditure as a percentage of GDP; and citizen access to small arms and light weapons.

In general, the Institute found that peace tends to be found in countries with higher income, schooling, high levels of government transparency and low corruptions. You also find greater measures of peace in stable countries that are part of regional blocks (think: Eurozone).

The most recent ranking, completed in 2014, lists Iceland, New Zealand, Switzerland, Finland, Austria, Norway, Belgium, Japan, Canada and Denmark as the top ten most peaceful countries, and their overall rankings are pretty similar. To find the United States, you have to go all the way down to number 101, where the high homicide rate, highest per-capita number of people in jails, huge military expenditures and high number of external conflicts that the military is engaged in all pull the ranking down. Not surprisingly, the bottom of the scale includes Iraq, Afghanistan, the Democratic Republic of the Congo, Syria, Sudan and Somalia—the most well-publicized war zones.

Sources:

http://history.howstuffworks.com/historical-events/most-peaceful-time-in-history3.htm

http://www.theguardian.com/science/2012/nov/19/better-angels-nature-steven-pinker-review

http://en.wikipedia.org/wiki/Global_Peace_Index