Fee Only Financial Planning & Investment Management

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Resolute Connections

Have you ever reviewed your portfolio and its performance and wonder, how does it affect my goals? In this month's first article, *What does it mean when your portfolio is up 10%?* we try to put performance in perspective and suggest how one might view it in relation to one's goals. In *Vanishing Equities* a little noticed market phenomena, the disappearance of public companies, is discussed along with the impact on market returns.

The article *Haves and Have Nots* gives a quick review of unemployment rates across the country, pretty good news for New England states. And *The Keys to Connecting* discusses a topic important to many of us, networking, and gives some pointers on how to improve one's networking skills.

If you have any questions about anything we have covered in the articles below, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

What does it mean when your portfolio is up 10%?

You may receive a portfolio performance reports periodically —a form of transparency that financial planning professionals introduced at a time when the typical brokerage statement was impossible to decipher. But it might surprise you to know that most professionals think there is actually little value to any quarterly performance information, other than to reassure you that you actually do own a diversified portfolio of investments. It's very difficult to know if you're staying abreast of the market, and for most of us, that's not really relevant anyway.

Why?

The only way to know if your investments are "beating the market" is to compare their performance to "the market," which is not easy. You can compare your return to the Dow Jones Industrial Average, but that index represents only 30 stocks, all of them large companies. Most peoples' investment portfolios include a much larger variety of assets: U.S. stocks and bonds, foreign stocks and bonds, both including stocks of large companies (large cap), companies that are medium-sized (midcap) and smaller firms (small cap). There may be stocks from companies in emerging market countries like Sri Lanka and Mexico. There may be real estate investments in the form of REITs and investment exposure to shifting commodities prices, like wheat, gold, oil and pork bellies.

In order to know for sure that your particular batch of investments outperformed or underperformed "the market," you would need to assemble a "benchmark" portfolio made up of index funds in each of these asset categories, in the exact mix that is in your own portfolio. Even if you could do that precisely, daily, weekly and monthly market movements would distort the original portfolio mix by causing some of your investments to gain value (and become larger pieces of the overall mix) and others to lose value (and become smaller pieces), and those movements could be different from the movements inside the benchmark. After a month, your portfolio would be less comparable to the benchmark you so painstakingly created.

Many professionals believe that there are several keys to evaluating portfolio performance in a meaningful way—and the result is very different from comparing your returns with the Dow's.

1) Take a long view. What your investments did last month or last quarter is purely the result of random movements in the market, what professionals call "white noise." But you might be surprised to know that even one-year returns fall into the "white noise" category. It's better to look at your performance over five years or more; better still to evaluate through a full market cycle, from, say, the start of a bull market to the start of a new bull market. However, you should remember that there are no clear markers on the roadside that say: *"This line marks the start of a new bull market."*

2) Compare your performance to your goals. Your financial plan indicated that your investments needed to generate (let's suppose)

5% returns above inflation in order for you to have a great chance of affording a long, comfortable retirement. If that's your goal, then chances are, your portfolio is not designed to beat the market; it represents a best guess as to what investments have the best chance of achieving that target return, through all the inevitable market ups and downs between now and your retirement date. If your returns are negative over three to five years that means you're probably falling behind on your goals—and you might be taking too much risk in your portfolio.

3) Recognize that some of your investments will go down even in strong bull markets. The concept of diversification means that some of your holdings will inevitably move in opposite directions, return-wise, from others. Ideally, the overall trend will be upward—the investments are participating in the growth of the global economy, but not at the same rate and with a variety of setbacks along the way. If you see some negative returns, understand that those are the investments you're counting on to give you positive returns if/when other parts of your investment mix are suddenly, probably unexpectedly, turning downward.

That doesn't mean you shouldn't look at your portfolio statement when it comes out. Make sure the investments listed are what you expected them to be, and let your eye drift toward the longer time periods. Notice which investments rose the most and which were down and you'll have an indication of the overall economic climate. And if your overall portfolio beat the Dow this quarter, or over longer periods of time, well, that probably only represents white noise.

Vanishing Equities

A recent Wall Street Journal article, citing a study by the Center for Research in Security Prices, tells us something remarkable about the times we are investing in: the number of stocks on the U.S. market has quietly diminished by more than half over the last 20 years. In November 1997, investors could choose from 7,355 U.S. stocks. Today, there are fewer than 3,600.

Why haven't you noticed this? Most of the decline has come from vanishing companies ranging from small to microcap—the sort of names you probably haven't heard of. Small stocks have diminished from more than 2,500 in 1997 to fewer than 1,200

today. Microcap companies that are even smaller numbered nearly 4,000 in 1997, compared to 1,900 today. Some went out of business, while others were gobbled up by private equity firms. Meanwhile, the ecology has changed; instead of new companies going public to replace those that have retired from the market, venture capital firms are allowing younger ventures to stay private for longer.

The article talks about several possible consequences. Since the surviving companies tend to be larger and better known, it becomes harder for professional asset managers to get an information edge or find small undiscovered gems that are undervalued. The declining roster of stocks may also mean that a long era of higher returns from small cap stocks compared to larger firms could be coming to an end. But the truth is that nobody knows what the investment consequences will be from the quiet shrinkage of investment options.

The Keys to Connecting

How well do you connect with other people in informal social occasions? If you tend to be shy or awkward at cocktail parties or networking events, it can be bad for your career and rob you of connection with others who might become friends or mentors.

Fortunately, there's a solution. Researchers have shown that there's a fairly reliable way to make small talk and connect with others. Best of all, anyone can master it.

The solution is: whenever you encounter others who you think might be interesting, focus on the other person rather than yourself. Many people make the mistake of trying to entertain instead of connecting, on the assumption that your personality or your wit is the value you bring to parties. But actually, what most people crave is an audience.

The key here is to ask questions that will prompt the other person to share something about him/herself. A recent online article in Medium offers 49 questions you can pose to someone you meet for the first time, although some of them might not be ideal for the shy or easily embarrassed. (*"Are you scared of death?"* doesn't sound like the ideal ice-breaker for many of us.) But others are creative and have the potential to lead to a fun conversation. Among the best:

What would you be most likely to volunteer for?

What are you looking forward to in the next few weeks?

Do you like to cook? What's the last thing you cooked?

If you didn't live here, where else would you choose?

When do you know you've reached adulthood? What makes an adult an adult?

Do you know your Myers-Briggs personality type? What are your thoughts on personality assessments?

What kind of music do you listen to when you need to amp yourself up and get things done? How about when you want to mellow out?

What excites you these days?

When was the last time you laughed really hard? What were you laughing at--or whom were you laughing with?

What are three words your friends would use to describe you?

What makes you feel appreciated and loved?

What do you think makes a good friend?

But the questions themselves are not the entire key; it’s also important to ask follow-up questions. Many times, in conversation, we wait impatiently for another person to finish talking so we can interject our own answer. If you continue to probe for the other person’s view, rather than jumping in to share your own, people will respond more favorably and open up to a deeper conversation. Don’t make the conversation too weird by turning it into an interrogation; make sure you insert thoughtful follow-up questions, which make the conversation more fun for the other party.

And because everyone has access to information and insights that we’ve never encountered, think of the things you’ll learn that you might have otherwise missed at social gatherings. Don’t worry about impressing the other person. You just have to listen.

Haves and Have Nots

The U.S. unemployment rate has dipped below 5%, a recovery of jobs that nobody could have expected when we were in the teeth of the Great Recession. But the wealth of jobs is spread unevenly among U.S. states.

The Bureau of Labor Statistics publishes the unemployment rate for each state, ranging from the most highly-employed (Colorado, at a 2.3% unemployment rate) to Alaska on the bottom end (a 6.7% unemployment rate). It is perhaps encouraging to see that none of the U.S. states has anything close to 11% of workers out of jobs, which was the national unemployment rate back in 2009.

Among the most highly-employed states are North Dakota (2.5%), Hawaii (2.7%), Nebraska, New Hampshire and South Dakota (2.9%) and Iowa, Vermont and Wisconsin (3.1%). States near the bottom of the rankings include New Mexico (6.6% unemployed), the District of Columbia (6.0%) and Louisiana (5.7%). You can find the full list here: https://www.bls.gov/web/laus/laumstrk.htm.

Source:

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For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

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