



# ***My Views from Wall St. to Center St.***



- Personal Notes
- Create a long-term plan and follow that plan
- Learn to control your emotions
- Become disciplined and be patient
- You must diversity
- Never lose a healthy level of skepticism
- Boom
- Good News Economy

---

## **Personal Notes ~**

Sorry it's been so long since my last views – it's not because I haven't been paying attention to current market/economic events. It's because I have had several health issues that have hindered my ability to write effectively. Early this year I began losing strength and dexterity in my right hand, making it difficult to do the simplest of daily tasks including writing. Through a Nerve Conduction Test, it was determined that the 2 main nerves running into my hand were "pinched" off (median and ulnar) requiring surgery. I had the surgery on July 9<sup>th</sup> and I'm happy to report that my hand is regaining its function – hence I'm back writing!

Unfortunately, I also have suffered with Retinal Detachment(s) this summer. I awoke on June 11<sup>th</sup> and was completely blind in my right eye and had surgery to repair the eye that evening. 16 days later my retina detached again and I went back into surgery another time. This time they placed silicone oil in my eye to stabilize it. So far so good, but I am essentially blind in my right eye (20/400). Hopefully they will remove the oil by year end and my vision will improve, but unfortunately it will never be as good as it was –too much damage. But, as the saying goes, "This too shall pass" and I'm looking forward to 2019.

***"Education is the passport to the future, for tomorrow belongs to those who prepare for it today." - Malcolm X***

Have you ever embarked on a new workout/sport? You are confident you can do it and enjoy it, but you are unfamiliar with the techniques and nuances required to do it effectively -- I recently have taken up cycling as a way to get the "Cardio" aspect of my workout routine (yes, you can do it with one eye!) Now you can find how-to-clips on YouTube, but there isn't a practical way to reach out with follow-up questions. You need guidance from a caring individual(s). This is where your local cycle shop comes into play.

I went to \*Larry's Cycle Shop and Larry & Reece not only know their craft exceedingly well but are excited to share their experience and ideas. You can see it in their body language and the sparkle in their eyes when they explain the differences and nuances of bikes. Plus, they are happy to share riding experiences so your experience will be a good one and you can avoid some of the dangers you might encounter on the road. They are in a word, educators.

What Larry has taught me and what I have learned through logging miles on the road is a fairly simple concept: "Experience isn't the best teacher, - Someone else's is."

I have many goals that I want to accomplish with you. When I ponder the fact that you have entrusted me with your finances, your financial goals, and your dreams, it is truly humbling. Of course, I understand that there are differences between a financial plan and learning to be a cyclist. But I draw up the analogy because they have one commonality—they are linked by the educational component. Just like Larry at his cycle shop, who thrives on his or her customer's understanding of the bike, I experience the same thrill when you begin to grasp the basic skills that make a successful investor.

In this "Views", my goal is to share with you some of the basic building blocks that will put you on the path to becoming a lifelong student of investing. Even the best of the best never stop learning. In fact, being a lifelong student might just be the first principle of becoming a great investor.

So, let's get started.

### **Create a long-term plan and follow that plan**

*"A plan is a bridge to your dreams. Your job is to make the plan or bridge real, so that your dreams will become real. If all you do is stand on the side of the bank and dream of the other side, your dreams will forever be just dreams. First make your plans real and then your dreams will come true."*

- Robert Kiyosaki, the author of *Rich Dad Poor Dad*

Agreed, but I take exception with one part of the quote. It's not your job to make the plan real. With your input, that's *my* job!

If we were to go back 50 or 60 years, the choice of investment vehicles was limited. You might choose between stocks, bonds, mutual funds and cash. Still, how might you create the proper balance between these choices?

Today, there has been an explosion of investment vehicles. It provides us with choices, but choices create complexity and even confusion for all but the most experienced investors. We have assisted many of you in developing a long-term financial plan that's designed with your financial goals in mind. Great investors have a financial plan. It becomes our guide. It is a financial roadmap that puts you on the best path to your financial destination. It is the bridge to your dreams.

\* Larry's Cycle Shop, 718 E. Center St., Kingsport, TN; 423.247.2751

<https://www.facebook.com/Larrys-Cycle-Shop-219442578251355/>

## **Learn to control your emotions**

Successful investors learn how to control their emotions.

Most of us remember Mr. Spock from the original *Star Trek* series. He was half human and half Vulcan. His Vulcan half made him the epitome of rational thought and he rejected emotional responses. I get that he was a fictional character, but none of us can match Mr. Spock's steely devotion to logic.

However, we don't need to be as stoic as Mr. Spock if we have a well-thought-out financial plan. The plan is grounded in empirical research. It provides us with boundaries. It keeps us on track when storm clouds gather.

We recognize the plans we recommend are not bulletproof, but we are confident they put people on the best long-term path for reaching their goals. I also know that when volatility strikes, some folks take it in stride while others want to take a detour from the plan. They are tempted to react emotionally. I get it, I really do. While heading to the safety of cash may feel good in the short term, I've seen the anguish of those who have opted for the sidelines near a market bottom and then watch in dismay as shares began to climb. Remember, longer term, markets rise in most years.

Recall 2008. According to a Fidelity study, "Investors who stayed in the markets saw their account balances—which reflected the impact of their investment choices and contributions—grow 147%" between Q4 2008 and the end of 2015. "That's twice the average 74% return for those who moved out of stocks and into cash during the fourth quarter of 2008 or first quarter of 2009." Stocks bottomed in early March. Even worse, over 25% who sold out of stocks during that downturn never got back into the market.

The opposite is true, too. Don't become overconfident when stocks are surging. Some folks begin to feel invincible and are tempted to take on too much risk. It gets them into trouble, too. Sticking with the plan helps to avoid mistakes that can be costly in the long run. If you feel too much distress during times of volatility, let's talk and see if your tolerance for risk has changed.

## **Become disciplined and be patient**

Like the control over emotions, a financial plan helps to enforce discipline. By design, the plan puts you on a gradual path to wealth accumulation, which encourages patience. There are no shortcuts.

We are open to innovation and empirically verified research, but I would caution you to be very careful about what I call the "flavor of the month." Remember the dot-com boom? And recently I have had clients calling me with questions about investing in "crypto currencies, blockchain & marijuana stocks because a "smart neighbor's son-in-law" said it was a "can't miss". Like shooting stars, fast-growing companies soar into view for a brief period before fading into obscurity.

The legendary investor Warren Buffett sticks to what he knows best and invests over a very long-time horizon. His disciplined approach and his patience have brought him rich rewards.

## **You must diversify**

Here's a principle I live by: a one-investment portfolio is too risky. Diversifying among stocks, bonds, cash, real estate, and commodities doesn't guarantee there won't be short-term losses, but it greatly reduces risks and allows you to participate in investments that are rooted across the U.S. and global economy. But I believe we have to do more than just diversify portfolios into different asset classes because the different asset classes tend to move together during periods of market dislocations. To better navigate the period ahead we are utilizing investment trading strategies that move in and out of asset classes. The strategies seek growth opportunities while maintaining a level of risk management. I believe a portfolio must evolve over time—it must be a living, breathing organism, not a static portfolio that solely relies on patience and time for results.

## **Never lose a healthy level of skepticism**

A good investor asks questions. Following simple but time-tested principles can prevent fraud. Be wary of investments that promise riches or offer returns that are too good to be true. Today, a con artist won't use the phrase "get rich quick." But you will see ads that hype strategies that have quickly turned a meager sum of cash into a big pile of wealth. Such claims should be viewed with a healthy level of suspicion. If these strategies worked, wouldn't high-powered institutional investors implement them? They don't. If you come across such a tempting scheme, please ask me to review it. I promise to offer you an objective analysis. I'll point out advantages, if any.

More importantly, I'll counsel you on the questions you need to pose to those who are asking for your trust. I can't begin to tell you how much it pains me when I see someone get scammed.

Let me sum this up by getting back to what is the foundation, or the cornerstone, of becoming a skilled investor. I mentioned it just as we began. Become a lifelong student. Never stop learning and immerse yourself in the principles I have shared.

**All Seasons Strategy Summary Statistics for month ending July, 2018**

SUMMARY STATISTICS	1 MTH	YTD	1 YR	5 YR (Annlzd)	10 YR (Annlzd)
All Seasons Strategy	1.1%	1.8%	7.9%	5.5%	5.0%
1 US Large Cap	3.7%	6.5%	16.2%	13.1%	10.7%
2 US Mid Cap	1.8%	5.3%	14.5%	11.7%	11.2%
3 US Small Cap	3.2%	12.8%	23.1%	13.8%	12.4%
4 Intl Developed	1.9%	-0.6%	7.0%	6.8%	4.4%
5 Emerging Mkts.	2.8%	-3.4%	5.7%	6.1%	3.6%
6 Global REITs	0.9%	1.4%	4.3%	7.5%	6.6%
7 Natural Resources	1.1%	4.8%	19.0%	5.2%	0.7%
8 Commodities	-2.1%	-2.1%	2.7%	-7.1%	-8.1%
9 US Bonds	0.0%	-1.6%	-0.8%	2.2%	3.7%
10 US TIPS	-0.4%	-0.4%	1.2%	1.5%	2.9%
11 Intl Bonds	-0.4%	-1.5%	0.1%	0.8%	1.7%
12 Cash	0.2%	0.9%	1.4%	0.4%	0.3%

Source: S&P Dow Jones Indices

## **The Good News Economy**

In my business, there is a fine line between standing by your conclusions and being unwisely stubborn. But no matter what I say, people will still label me a pessimist or an optimist – often at the same time. It's an occupational hazard and you get used to it. I think it's more fair to call me a "realist". There are always reasons to be bullish or bearish. I admittedly, tend to worry, it's my job.

Let me clarify my outlook. I am long-term very bullish, medium-term very bearish, and short-term uncertain, but slightly negative.

I see major problems coming in the 2020's (and perhaps a bit sooner), but I also see a lot of good things happening right now. The economic recovery is gaining some momentum that ought to carry it forward for another year or two, assuming (I'm hoping) that we can put this trade war thing to rest. That's good news because it buys us time to prepare for worse times, but it's also just plain good news.

We can get so busy worrying about the future we ignore the positive things happening right here and now. That's not healthy and can make us overlook opportunities. So, let's look at some good economic news that you might not have heard lately.

## **Animal Spirits**

Economic activity is the collective result of human decisions. We all make choices about what to buy or sell and what prices we will do so thereby creating either growth or contraction. These decisions might prove to be wrong, but they still matter. So do the attitudes and beliefs that lead us to make them.

Sometimes business owners see new conditions that encourage them to be more likely to hire, expand, and make capital investments. Get enough businesses thinking that way at the same time and you have the making of an economic boom....which is what the leading survey of small business owners says is happening. The National Federation of Independent Business has been surveying small business members since 1973 and presently, their index is near its most optimistic level ever – just below the 1983 all-time high.

Another consequence of the "good news" is historically low unemployment. It took way too long after the last recession, but employers are finally hiring. They can do so only because they expect sales to grow beyond their present level to deliver, which is why businesses sentiment is so important.

Evidence of "healthy" economy is apparent, just travel on the interstate and you will experience the highways clogged with trucks. I have read recent reports that costs and unpredictable shipping times are having an impact on the, just-in-time economy. But, as business problems go, this is a relatively good one to have. Transportation "bottlenecks" are much easier to fix than lagging sales.

To me, the bigger questions are why, given all the activity, GDP is not growing even faster than 4.1% as indicated by the initial Q2 numbers and why rising transport costs aren't yet more evident in core inflation. Yes, inflation is picking up but not enough to make the Fed change course. The Fed seems content to let the economy run a tad "hot" as compensation for years of not-so-hot conditions. We are beginning to see what "hot" looks like. I believe more is possible.

## **What could go wrong?**

I am aware that for some people a 3.9% unemployment rate is not at all encouraging. They are still digging out of deep holes, at significantly lower pay than what they earned a decade ago. Also, inflation is higher than averages reflect, particularly in housing, health care, and other necessities. Everything isn't great everywhere... but everything isn't terrible everywhere, either. Good things are happening. We should not ignore them.

Eventually, something will derail this recovery and we will enter what John Mauldin calls the "Great Reset" period. It could be a credit event, liquidity shortages, currency crisis, war, political turmoil, business scandal – the possibilities are endless.

When? I now believe we have 12-24 months. Between now and then we could see an economic boom that will knock your socks off (I hope we do). That is how economic cycles typically end...a big boom up before an economic downturn. Cautious optimism is warranted. So let's not head for the hills just yet.

So with 1-2 years left in this cycle we have time to prepare portfolios. I do not believe the traditional 60/40 portfolio is going to protect investors in the next "Reset". I don't believe it will get you through and to the other side of the "Reset" that I believe will be damaging to investors and will not recover quickly.

My goal – my passion – my quest – is to help my family, my friends, my clients reach what I believe will be a very bright future on the other side of the "Reset" with their spending power intact in a very tumultuous economic and financial world. Let me put it this way. Imagine I had come to you in early 1929 and told you about the Great Depression. If you believed me, you would have changed your life and your investments, preparing to protect your assets and take advantage of opportunities.

I'm saying I believe you can continue to seek growth opportunities but do it in a way that provides a level of protection in down markets. Passive buy-and-hold with dollar cost averaging may work well for someone in their twenties and early thirties, but not well if you are near or in retirement.

Cautious optimism has always been the best way to invest and is certainly the best way to live. Someday in the future, I am going to make a list of the websites and newsletters that I get that focus on the new biotechnology and the fight against aging. I truly believe cancer will be a nuisance in 10 years, as opposed to what is sometimes a death sentence today. There are so many new therapies coming that I read about online. Reading a few of these each week will help lighten your mood.

If you properly construct your portfolio today, you will be able to enjoy this phenomenal future. It's going to be fun.

So I am whispering now. Get prepared. We have time!

Jeff

## **B&H Wealth Strategies**

1402 East Center St. / Kingsport, TN 37664

423-247-1152 / Toll Free 877-247-1152

Fax 423-247-5714 / [www.BHRetire.com](http://www.BHRetire.com)

Follow us on Facebook at B&H Wealth Strategies, on Twitter @BHRetire and connect with Jeff on LinkedIn.