

## The Outlook: March 15, 2019

***“Nothing dies harder than a bad idea.”***

Julia Cameron, author

We investors should always be cautious about thinking we know “the mood of the market.” After all, that phrase simply means, “What’s in the collective mind of the speculating crowd at the moment.” Nevertheless, let’s try.

The moment-by-moment trading crowd is worried about almost everything: more than worried, downright gloomy-to-frightened. Brexit and the Trade War are both drawing out their pain and anxiety almost day by day. Any temporary or slightly negative economic reading, here in the U.S., is greeted as if it’s the economy’s Grim Reaper carrying his sickle—no matter the dozens to hundreds of such readings over America’s 10-year expansion since 2009, all of which turned out to mean nothing much. We’ve hardly begun 2019, but it feels as if we’re already in the middle of the Presidential Election year—which brings anxiety and uncertainty to practically everyone.

The wise old saying about all this is “The market climbs a wall of worry.” It’s a good saying . . . but not a guide to investing decisions because the market also falls off a wall of worry, now and then, like Humpty Dumpty. No; as Outlook has mentioned a few times, the only good guide to investing decisions are the simple Rules:

1. Understand what we own. Don’t own it unless we understand it.
2. Own no company without financial staying power.
3. Buy and hold good values: “reasonable” to “cautious” values, or better yet, “worried and skeptical” values. Never own “expecting wonderful things” values.

We were reminded of the drop-dead importance of the Simple Rules, today, by a keen analysis performed by professional investment advisor Mark Hamtill.

### INDEX PERFORMANCE — GROSS RETURNS (%) ( FEB 28, 2019 )

	1 Mo	3 Mo	1 Yr	YTD	ANNUALIZED			Since Dec 31, 1987
					3 Yr	5 Yr	10 Yr	
MSCI USA	3.35	1.77	4.86	11.85	15.43	10.54	16.66	10.59
MSCI World	3.06	2.70	1.00	11.11	13.28	7.13	13.69	7.80
MSCI ACWI	2.72	3.10	-0.30	10.86	13.48	6.85	13.34	7.76

The red circle sums it up. For more than 3 decades, US stocks have beaten the “rest of the world:” earning a compound average annual return of 10.6% against the foreign sector’s 7.8%. Now, to non-professional investors, that nearly-3% difference might not seem much; but it’s actually enormous. American stocks cleaned their clocks, to put it scientifically. A \$200,000 investment in America would stand today at \$5 million; in the foreign sector, at \$2.2 million. Not shown in the table, but important, is one more fact: the American stocks worked their magic with exactly the same “volatility” (the academic notion of risk) as the

foreign stocks. The professors would put it this way, if they felt like admitting they were wrong: “American stocks outperformed global stocks, with no additional risk.”

“Nothing dies harder than a bad idea,” said Ms. Cameron. The bad idea Mr. Hamtill had in mind came from academia at least 4 decades ago. There are many names for it, and mountains of distinguished literature about it . . . but it boils down to “Only ignorant investors stick to American stocks. Our studies prove everyone should own a basket of global stocks. Such diversification will give them more return for less risk.”

Like most bad ideas, it sounded good and it was couched in high-sounding language backed up by massive statistical and mathematical “proofs.” Academics are good at that. The “diversify globally” theory took what we might call the “highbrow” part of the investment world by storm. It sounded sophisticated and clever, so it “sold” well; and Wall Street’s finest flocked to it.

“Nothing dies harder than a bad idea . . .” especially, in Outlook’s opinion, an idea which sounds good but is also too complex for most people to understand. That perfectly describes the “diversify globally” theory. How many of the tens of millions of investors who “allocated” the theoretically correct percentage of their capital to foreign stocks asked themselves about the Simple Rules? “Do we actually understand these companies?” “Are they financially strong?” “Are they at cautious or worried valuations?” We know the answers, don’t we: “No,” “We don’t know,” and “We don’t know.”

Mr. Hamtill’s study would drive a stake through the heart of the “diversify globally” theory . . . in an investment world governed by down-to-earth thinking and common sense. When the grand theory was being dreamed up in the cloistered halls of academia, 40 or so years ago, not one professor would have said that red-circled result was possible. But we’d best not wait to hear a chorus of “Oops! We goofed!” from Harvard, Yale and MIT.

Instead let’s remember the Simple Rules: “Understand.” “Only Financial Strength.” “Buy When Others Have Doubts and Fears.” And finally, of course, “Decide to Be Patient. Endure.” This guide to investment decisions actually does pay off, generally far beyond what seems possible to the doubters and worriers.

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