GREENSPRING

Moments of (k)larity®

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Happy 6th Birthday Bull Market!

It was on March 6, 2009 that the S&P 500 hit its intra day low of 666. Currently sitting around 2,100, the index has grown over 200% in the last six years.

It seems crazy that anyone could have missed out on those gains, but there have been seemingly legitimate reasons you should have stayed out of the market during the past 6 years. We've listed a few of the reasons we've heard throughout the last five years that made investors skeptical to stay in the market:

- Balooning US debt and uncontrolled deficit
- The breakup of the Eurozone (that's been an ongoing theme)
- US unemployment (underemployment)
- The Fed manipulating interest rates, printing money and/or propping up the stock market
- A hard landing in China
- Russia's invasion and occupation of the Ukraine
- Rising energy costs
- Falling energy costs
- Arab spring
- Devastating hurricanes
- Passage of Obamacare
- Near default on US debt via political showdown

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We could take every decade in history and list countless reasons why you shouldn't invest. But there is only one reason we can think of to stay invested: human ingenuity. We are hard wired to make things better. To solve problems. Let's pull back further and see how much progress we've made over the past several decades:

- Between 1990-2010 the percentage of children who died before their fifth birthday dropped by almost half
- Global life expectancy was 47 in the early 1950s but had risen to 70 by 2010
- Since 1981 the percentage of the global population living in extreme poverty (less than $1.25 per day) dropped from 41% to 14%
- The worldwide death rate from war has dropped from 300 per 100,000 during World War 2 to less than 1 in the 21st century
- GDP per capita in the US grew from $12,597 in 1980 to $53,042 in 2013

There will be another crisis at some point. The stock market will enter bear market territory in the future. The point is not to try to avoid these events, but to be able to stay invested throughout them. Those that can stomach the inevitable volatility will be rewarded for their perseverance. From 1926 through February 2015, $100 invested in the S&P 500 would have grown to $544,962. It would have been tough to stay invested those 89 years but the rewards for doing so are obvious.

Investors Are Still Their Own Worst Enemies

Seven years ago Warren Buffet threw down the gauntlet.

He bet any hedge fund that a simple Vanguard S&P 500 index fund would outperform the fund(s) of their choosing over a 10 year period. The wager? One million dollars would go to the winner's charity of choice. Each put up half the money of the bet. So where do things stand now, with only three years left on the bet? Buffet is way ahead. Fortune writer and Buffet biographer Carol Loomis sums it up:

> *Under the terms of the wager, Buffett is betting (with his own money, not Berkshire's) on the stock market performance of an S&P 500 index fund while Protégé Partners, a New York money manager, is banking on five funds of hedge funds (the names of which have never been publicly disclosed) that Protégé carefully picked at the outset. Through the seven years, Vanguard's 500 index fund, as represented by its Admiral shares, is up 63.5%. That's the portfolio carrying Buffett's colors. Protégé's five hedge funds of funds are, on the average—the marker the bet uses—up an estimated 19.6%. (The "estimated" takes into account that not all of the five funds have final figures for 2014).*

What's interesting about the bet is that it started in 2008. Buffet was way behind from the onset since the S&P 500 lost 37% in that first year. And there lies the genius behind Buffet's bet. He knew that by making the bet a 10 year horizon, the odds were massively in his favor. Why?

1. Equity markets lose value about one of every three years, but when you go out to 10 years, they have a greater than 80% chance of gaining more than 5% and a greater than 50% chance of making more than 10%. Buffet knew that time was his friend.
2. Fees for the hedge funds would eat into returns - when you are paying high management fees, performance fees and heavy trading fees the hurdle rate to keep up with the market can be difficult to overcome. While anything can happen in one year, Buffet knew that if given enough time, the fees would prove to be their undoing.

There are many lessons that can be learned from this bet. The biggest one is likely that if you ever have the opportunity to wager $1 million with the greatest investor of all-time, you should probably pass.

The Most Powerful Statements You Can Tell Yourself

When it comes to investing, we've found that "I don't know" is one of the most powerful statements you can say to yourself to improve the performance of your investments.

"I don't know where the market is heading this year"
"I don't know what interest rates are going to do"
"I don't know if this stock is a good investment"
"I don't know what is going to happen in the global economy"

Most people have a hard time telling themselves these statements. We all want to feel like we have some control over our investments and the thought that we have no idea about the direction of the markets is a scary thing. But the simple fact is...you don't know. No one does. Once you embrace this simple truth, your whole outlook changes.

- You stop focusing on things you can't control or predict
- You start focusing on things you can control- diversification, discipline, taxes and fees
- You are more skeptical of sales pitches that rely on a manager's abilities
- You understand that when something sounds too good to be true, it is
- You discount everything that you hear or read in the financial media (since they all claim to "know" what is going to happen)

- You look at managers who outperform as more lucky than skillful
- You demand to see real evidence to show that past performance is predictive of future results

"I don't know" is a powerful statement in many aspects of our lives, but when it comes to investing it is not only powerful, but freeing as well.

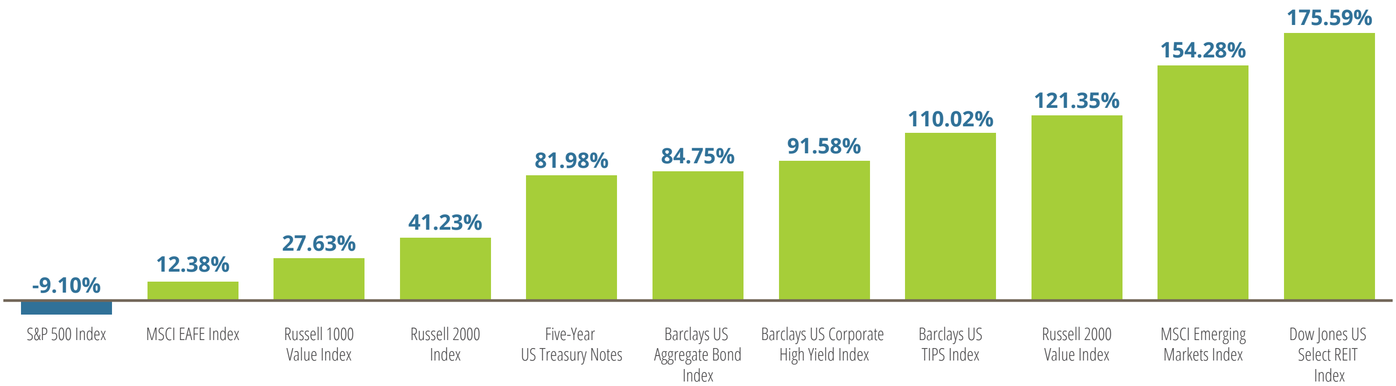
Why Didn't My Portfolio Keep Pace with the "Market"?

If you have been holding a diversified portfolio, it's been a frustrating few years. Nothing outside of US stocks has been working.

We have been counseling clients that sticking with their original plan of global diversification still makes a lot of sense since the tides will turn eventually. We may be seeing those shifts sooner than we thought. Below is a chart of showing the first quarter of the year:

Although a short time period, things have shifted in 2015. After three months, the US stock market (black line) is the clear loser when compared to the developed foreign markets (gold line) and the emerging markets (blue line). For the past five years, US stocks have gone up roughly 15% per year, while foreign developed stocks are up 5% and emerging market stocks are essentially flat per year. It is not hard to understand why people might abandon diversification and just decide to stick with the US markets. The problem is that trends don't last forever. At some point the tides will change. This is not dissimilar from the 1990s. This decade was a great period for the US stock market with substantial economic growth ending with the technology boom. The US stock market had tremendous gains and outperformed almost every other asset class.

Those choosing to concentrate their assets in large US companies at the end of this decade, because of that great performance, found that the next 10 years were horrific (taken from the Irrelevant Investor Blog):



SOURCE: http://theirrelevantinvestor.tumblr.com/post/108551333738/what-lost-decade-the-period-from-2000-through

We have been counseling clients that sticking with their original plan of global diversification still makes a lot of sense since the tides will turn eventually. We may be seeing those shifts sooner than we thought.

Investors need to remember that if you are properly diversified, there two truths that you ALWAYS have to live with:

- You will always have something to complain about- something in your portfolio will be out of favor every year if you are properly diversified.
- You will never outperform the best asset class- in fact your portfolio will always fall somewhere in the middle of the asset classes you are invested in. In the case of 2014, if you have adopted a diversified portfolio, you should be upset you underperformed the S&P 500. It was one of the best performers.

The upside of all of this is that your portfolio will never be as bad as the worst asset class in the portfolio, you don't have to try to "guess" which asset class to rotate into each year, and your returns will be much less volatile. We believe that this is a worthwhile tradeoff.

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Greenspring has been recognized as one of the fastest-growing independent advisory firms in the United States for 2009, 2010 and 2011 by Financial Advisor magazine and was named one of the Top 100 Retirement Plan Advisors in the country in 2014 by PLANADVISER Magazine. Our firm was also one of three finalists in the United States for the 2012 401(k) Advisor Leadership Award sponsored by Morningstar and the American Society of Pension Professionals & Actuaries (ASPPA) and one of ten semi-finalists for the award in 2015.

Our Institutional Client Group provides retirement plan and fiduciary consulting services to committees and plan participants of publicly-traded, privately-held and not-for-profit organizations. We also provide investment consulting services to investment committees of corporations, non-profits and endowments.

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