StraightTalk

PROVIDED BY STRAIGHTLINE FINANCIAL OF RAYMOND JAMES VOLUME 2 APRIL 2019

ALFRED L. STRATFORD, III
Chartered Retirement Planning Counselor (CRPC®)
Senior Vice President, Investments

25 Years and Counting

On Friday, April 1, 1994, I walked off of the elevator on the 2nd floor of Riverfront Plaza to my desk in the bullpen of Wheat First Securities for the first time, surrounded by fifteen other "newbies" who had yet to earn a private office. I was a rookie investment advisor, with almost no clients (but a world of prospective ones), and yet I was optimistic about the future. Twenty five years later, I am still at my desk at Riverfront Plaza, although it is a motorized standing desk in a corner office on a different floor, and I am even more optimistic about the future now than I was back then.

In two and a half decades of sitting at my desk, a lot has changed in the financial world. I have seen four Presidents, four Fed chairs, three major tax cuts and two routine recessions. I have witnessed the collapse of two sovereign currencies (the Mexican peso and the Russian ruble), the dot.com bubble bursting, and the World Trade Towers falling, which caused a stock market closure for the first time since WWII. Additionally, I have watched industry changing mutual fund and corporate governance scandals, the Great Recession of 2008, two stock market declines of roughly 50%, more than a few large company bankruptcies, and countless cycles of interest rate cuts and hikes. And…longtime newsletter readers know what's coming next...during this multi-decade litany of disaster, bestrewn with nightmarish headlines, the Dow Jones Industrial Average went from 3,647 to 26,258 as I write this. So, the question really is, should we choose to be optimistic, or pessimistic?

We all know that the news is relentlessly negative, but there seems to be a new trend that is increasing this negative feedback loop. Today, there are very few places in the developed world where citizens are actually happy with their elected government. Setting aside the few remaining countries on earth where lethal dictators have a stranglehold, and those ever-shrinking numbers of places where humanity is eking out an existence much as it was 5,000 years ago – people pretty much everywhere else dislike their government intensely.

Whether it is the bipartisan political clown show here at home, or the yellow vest protests in France, or the riots in London over the thrice-botched "Brexit" plan, citizens around the world feel disappointed by feckless governments. Left wing groups are conducting attacks on the government in Italy, Greece is enduring mass protests on the Macedonia deal, hundreds of thousands of Catalan separatists protested in Barcelona last month, and similar uprisings have occurred in the Czech Republic, Hungary, and Norway in the last year.

And it is not just limited to Europe, there have been many protests (and arrests) in China, tens of thousands of Japanese citizens have been protesting Prime Minister Abe, and last year South Korea sentenced their recently impeached and ousted President to 24 years in prison. With that backdrop of governments failing their citizens worldwide, a reasonable person might ask, how can you be optimistic?

My answer is simple – the more I see governments struggle to lead, and the longer I am in this profession, the more I become convinced that capital is the last bastion of rationality. Every morning, men and women in governments around the world wake up with one thought, which is how to hold on to power. Some for the right reason – a career of service, but many for the wrong reasons of personal enrichment, power, ego, and prestige. Deal-making or agenda-blocking efforts are all undertaken with the purported goal of "serving constituents" but most of us see through that ruse and recognize it for what it is, an attempt to remain in office for decades.

Capitalists, on the other hand, wake up every day knowing that they will be held accountable, sometimes in an up-to-the-minute fashion, by their shareholders for every action (or inaction) taken. Capitalism is ruthlessly judged on efficiency, productivity, and profits. If an idea or process fails, it is not repeated – because to continue that bad idea or process would damage profits in the longer term, or endanger the viability of the enterprise in the near term. Whether it is a small business start-up, or a multi-national public corporation, leaders who make decisions on deploying capital every day are held accountable for their actions. Certainly, there are bad actors in the corporate world, but I would submit to you that they are found out, and ferreted out more swiftly and decisively than those in political leadership positions. This is why I have so much faith in what we frequently discuss in our conversations – the great companies of America and the world. And it is also why I often say that "we invest in the companies, not the countries."

Capitalism has done more to improve the human condition in the last 200 years than all other systems designed by man collectively have since the beginning of time. Whether it is increased life spans, improved medical care, transportation, and communication, or saving us from dull, repetitive, and dangerous work to enjoy significant quantities of leisure time, and the concept of retirement – entrepreneurial capitalism is the single greatest story of human achievement. We lead lives today that could not have been imagined by our ancestors in 1800, and we cannot, in turn, imagine how wonderful life will be for our descendants in 2200.

Knowing this to be fact, and having learned lessons over the last two and a half decades in the capital markets, I have landed on three principles and three practices that guide my work in helping you to meet your life goals. This frees me from being in the security selection and timing industry, where every article, website, and TV segment ridiculously tells you what to do in the next hour to ensure financial success. These principles and practices also free you from ever owning a portfolio that you must constantly be reacting out of when the news becomes unbearably negative.

The first and most important of my three principles is ***faith***. Faith in the future. Faith that all will turn out alright, no matter how it looks today. All of recorded history tells me to have faith that today's problems will either turn out to not be the problems we thought they were, or that they will be solved. We do not need to know how these problems will be solved, we just need to have faith that they will be solved. Savers have fear, investors have faith. The undeniable path of history is up, and things get better. Period. Full stop.

The second principle is ***patience***, which is nearly un-American due to our current 24/7 news environment. This is made all the more difficult because the human brain evolved to detect threats, not to overlook them. The person who did not react quickly to the saber-toothed tiger did not live as long as one who did. However, numerous studies, most recently by Time Magazine, show that we are measurably less happy when listening to news. By constantly listening to today's negative news echo chamber, increased anxiety, stress and cortisol levels can cause us to react in ways that are harmful to our health, our portfolio, and our life goals. Great investors don't react – they act on a plan. Failed investors react to the news – and buying high and selling low are always the direct result of "reacting" too much. Patience prevents this behavior.

The third principle, ***discipline,*** picks up where patience leaves off. Knowing what works, what has always worked, and sticking with it until and unless the plan changes, often requires nerves of steel and lots of discipline. These three principles are external to the portfolio, and are at the core of how I help all of you navigate a noisy and crowded information-overload environment every week, month, and year.

The three practices inside the portfolio are easier to implement, and will produce the huge preponderance of performance provided the above three principles are adhered to.

Asset allocation, which is simply thinking from the bottom up, rather than the top down. The mix of asset classes is determinant of roughly 90% of investment performance over time – in other words, get the mix right, and the rest follows.

Disciplined diversification is the second practice, particularly in the stock holdings of the portfolio. A basic definition of diversification is "never owning enough of any one thing to make a killing, but never owning enough to get killed, either."

Rebalancing keeps both the asset allocation and diversification intact. It avoids the markets skewing your portfolio into overweight or underweight positions throughout the business and market cycles, and allows for time to work the miracle of compounding.

Legendary investor, Sir John Templeton, said "Be fearful when others are greedy, and greedy when others are fearful." A classic measure of fear – assets in money markets surged past $3 trillion last quarter, the highest since 2010. When everyone around you is excessively fearful, keep the *faith*, and have *patience* and *discipline* while enjoying what the future will bring.

StraightLine FINANCIAL OF RAYMOND JAMES®

804.225.1143 | straightlinefinancial.com | 951 E. Byrd Street, Suite 930 | Richmond, VA 23219