Planning Perspectives 4Q 2020

Integrity in Investing
Informed Investing Strategy vs. Market Cycle Déjà vu

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PROFESSIONAL FINANCIAL
Purposeful Wealth Management

"There's one robust new idea in finance that has investment implications maybe every 10 or 15 years, but there's a new marketing idea every week."
– **Eugene Fama**, University of Chicago Professor and Nobel Laureate

This is part of a series exploring integrity in professional wealth planning

Key takeaways:

- Markets and economics are constantly evolving, but the principles underpinning reliable investment approaches are evergreen.
- Market prices contain information and forward-looking expectations of market participant and prices are set such that expected premiums are positive.
- A consistent investment approach with broad diversification remains a reliable way to pursue a successful investment experience.
- Past performance is no assurance of future results, so avoid emotions to buy high only to sell low.

Investment fads are nothing new. When selecting securities or portfolios for their strategies, investors disappointed with recent returns or who need better results to make up for past mistakes or who simply lack enough savings are tempted to seriously consider the latest investment fad as a new "opportunity."

Wall Street's marketing whizzes (hunkered down at home, we suppose) continue to work their weekly magic creating bright and shiny objects to attract investor money. This year a *Treatments, Testing and Advancements ETF*, ticker GERM, has come to market to provide biotech companies exposure in hopes of capitalizing on the global race for a Coronavirus vaccine. EQM Indexes created four COVID related thematic indexes: *Stay at Home Index, Work from Home Index, COVID-19 Stock Index,* and *Global Pandemic Disruption Index* which they tout "will prevail post the resolution of the COVID-19 global pandemic."

While we may laugh at the faddishness, these schemes attract money. Previous schemes enjoying great marketing success tried to capitalize on developments of select geographic regions relative perceived strength, technological changes in the economy, and the popularity of various natural resources. But informed investors focused on achieving long-term goals like retirement should be aware (or just remember) that getting distracted by recent short-term trends with outsized returns but with a limited period of persistence may be counter-productive if they abandon sound strategy grounded in a scientific economic philosophy.

So Where are They Now?

What goes up fast may come down faster—especially if it's really an investment fad. Looking at the metamorphosis of investing fashion over many years shows how often trendy investing themes come and go.

- In the 1960s, "go-go" stocks were the investing fad that captured a great amount of investor interest and money.

- In the early 1990s, the rising "Asian Tigers" of Hong Kong, Singapore, South Korea, and Taiwan captured considerable investor attention and money.
- A decade later, the emerging "BRIC" countries of Brazil, Russia, India, and China and their potential place in global markets had lots of media attention impacting investor decisions.
- At one time funds targeting hot industry trends have come into and fallen out of vogue. In the 1950s, the "Nifty Fifty" were all the rage, including Rochester favorites, Kodak and Xerox.
- Later in the 20th century, growing belief in an emerging "new economy" led to funds created to capitalize on new information technology and telecommunication services.
- During the 2000s, 130/30 leveraged funds sold short certain stocks while going long others in a portfolio to enhance returns, becoming popular after the bust of the tech boom.
- In the wake of the 2008 financial crisis that killed off 130/30 funds, "Black Swan" funds, "tail-risk-hedging" strategies, and "liquid alternatives" appeared almost magically.

More recently, approaches focused on peer-to-peer lending, cryptocurrencies, cannabis cultivation and even private space exploration have become fashionable. ESG investing approaches are a new favorite.

Is the Big Boom in Tech Stocks a "New Normal"?

The hottest investment fad must be concentrated exchange-traded funds (ETFs) with catchy ticker symbols composed of so-called "FAANG" and tech-related stocks. The top 5 stocks collectively in the S&P 500 Index – Apple, Amazon, Microsoft, Alphabet, and Facebook – have had an extraordinary run of returns for nearly a decade. Year-to-date through August, the S&P 500 index returned 10% – with those five stocks returning 49% while the remaining stocks in the index collectively had a dismal -3% return.[1]

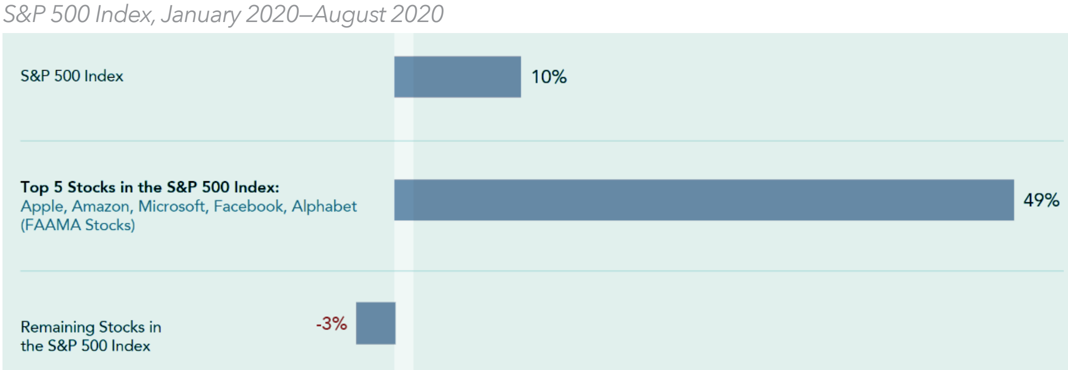
Commentators have questioned whether these stocks can be expected to continue exhibiting such high growth performance in the future. Examining evidence of growth stocks that have been at the top of the market in past decades can provide useful insights to better inform your planning strategy expectations.

Exhibit 2 below breaks down the largest US stocks by decade going back to the 1930s. One key takeaway from that exhibit is that some companies have persistently been at the top of the market. AT&T was among the top two for six straight decades beginning in 1930. General Motors and General Electric ranked in the top 10 for more than 50 years. IBM and Exxon were also mainstays in the second half of the 20th century. Hence, **stock market concentration of a few companies that have increased to an enormous market capitalization such as today's highly popular FAANG stocks is hardly unprecedented**.

Disrupters successfully rising to the top of the market appears to be common in capitalist economies. While the definition of "high-tech" evolves over time, firms coming to dominate the market have often been highly innovative and on the cutting edge of technology. Dupont, inventor of Teflon and Nylon, two household items that many individuals still use daily, was at the top of the stock market for several decades after those seminal inventions. AT&T

Exhibit 1: Measuring Recent U.S. Market Performance Due to Top 5 Stocks

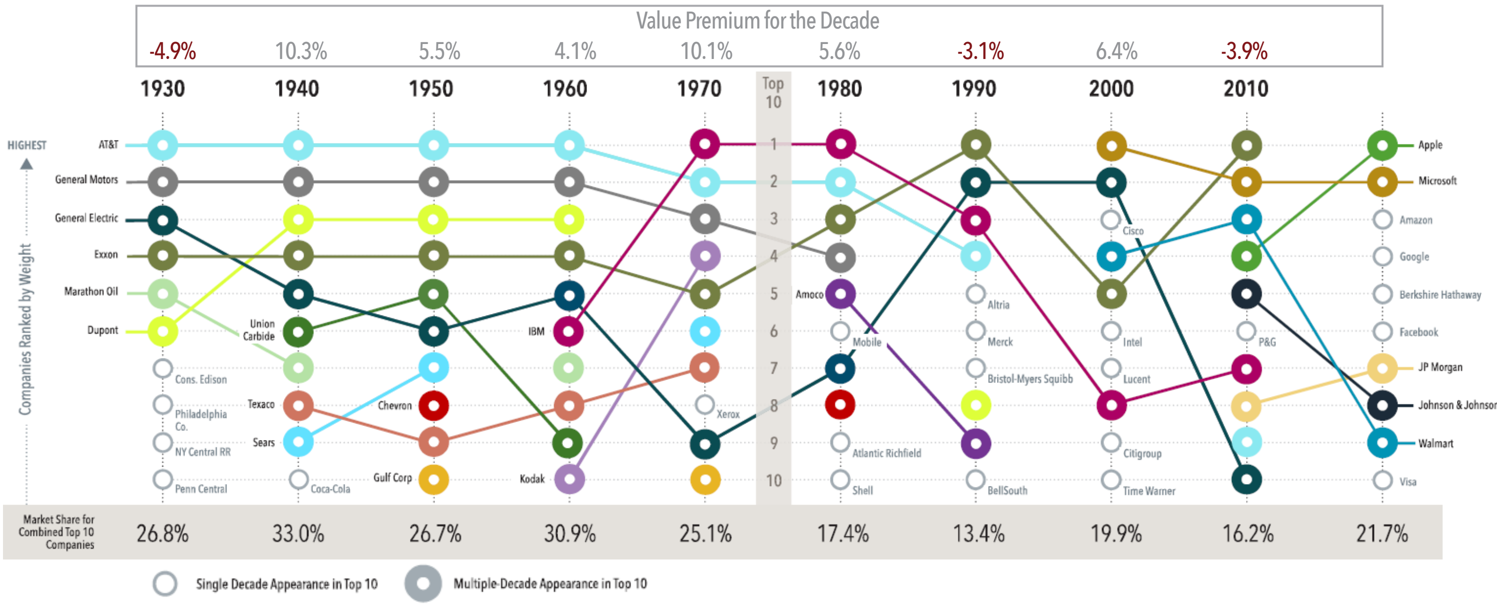
S&P 500 Index, January 2020–August 2020



Past performance is not a guarantee of future results. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Actual returns may be lower. Source: S&P Dow Jones Indices LLC, a division of S&P Global. Top 5 Stocks in the S&P 500 Index defined by market cap (FAAMA stocks): finance.yahoo.com.

Exhibit 2: Relative Position Changes of Top Stocks Over Time

Ten Largest Firms in U.S. at the beginning of each successive decade



Note: *Companies ranked by USD market cap at the beginning of each decade. Data from CRSP. Value Premium is calculated as the difference between the Fama/French US Value Research Index and Fama/French US Growth Research Index.*

This information is intended for educational purposes and should not be considered a recommendation to buy or sell a particular security.

is another company that dominated for decades, even bringing the first mobile telephone service to market. GM did the same, with innovations such as the electric car starter, airbags, and the automatic transmission. General Electric built the original Edison light bulb, contributing to future breakthroughs with fluorescent bulbs, halogen bulbs and the LED. So, **while companies dominating stock markets have highly technologically innovative product offerings, this is not a new phenomenon—just the "old normal" making economic progress in a new way.**

A third takeaway addresses a current perception that the value premium may be less important going forward or even disappear as a dimension of return. While stocks from different industries and sectors have dominated the market at various times, the value premium has persisted and outperformed the growth premium over multiple time periods. The top line of Exhibit 2 shows that in **six of nine decades realized positive value premiums, and an average value premium of 4.5%** is observed over a period covering nearly 100 years.

When tempted with doubts about your investment approach when some asset class or sector appears to have outsized performance relative to your portfolio, perhaps inspiring a touch of returns envy, remember that market expectations about the *future* performance of a firm's stock are *already* incorporated in their *current* prices.

While positive company developments that exceed current market expectations may lead to more surprise stock price appreciation, *unexpected positive changes are not predictable.*

While stocks migrate and jostle their relative positions, merge or even disappear, the market story remains the same: While FAANG growth stocks may appear like a colossus today, to assume that group of firms will systematically outperform the market for years to come is not realistic. Past performance tells us nothing with confidence about a single stock's likely future returns. This underscores why a broadly diversified portfolio that provides exposure to a vast array of companies and sectors around the globe is essential to reliably planning long-term financial outcomes most likely to fund your essential goals.

Exhibit 3 clearly illustrates a cost of capital story. As our clients have learned and relearned, and as I learned from Noble Laureate Merton Miller, the *firm's cost of capital is the investor's return.* An extended period of strong price appreciation that puts a firm's stock into the top ten likely has captured most of that firm's excess stock expectations. Investors should question an approach that keeps buying stocks *after* years of big returns. From 1927 to 2019, the average annualized return for stocks over the three years prior to their joining the Top 10 was nearly 25% higher than the market. But in the following three years, the return advantage averaged less than 1%.[2] **For a five-year**

period, those stocks as a group underperformed market returns about 1% on average. Underperformance widens to 1.5% as looking out extends for 10 years—a disappointing result very different from popular belief.

If you didn't actually own those stocks in those prior three years, those big returns cannot be yours. To believe that those stocks will still reward you well if you faithfully buy and hold onto them after the fact, is not very smart.

The insight we get from the last two exhibits is that once a company becomes great and dominates, it may stay at the top of the market for many years. However, that does not mean that it will continue to dominate as a great *investment*. That appears unlikely. Rather than chasing top performing companies after the fact—futilely guessing which firms will keep outperforming and for how long—and miss out owning some of tomorrow's top companies and capturing part of their big returns, focus your investing exposures within a select array of companies and sectors broadly diversified and structured within personally tolerable risk levels that you have the capacity to maintain for planning reliable income flows for the future.

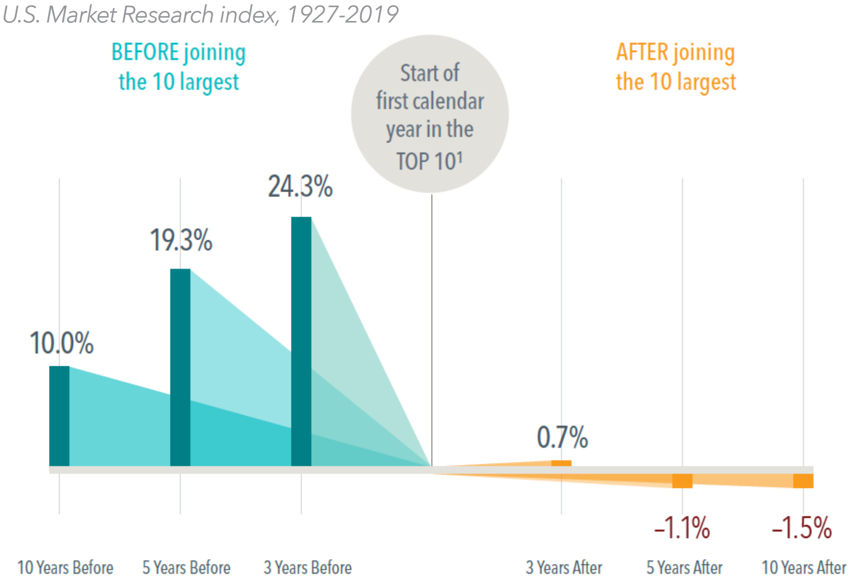
"The Market"–Which One is Right to Compare?

Clients should be pleased with their globally diversified portfolio strategies for the past rolling 12 months. However, newer clients may be less pleased when referencing their results to what financial media call "The Market." We all know that stock prices, analysis, and forecasts can be quickly accessed in real time from your smartphone. Easy access can give an unreliable impression of what may be occurring in your personal portfolio, but that means nothing for planning. After all, how many would have predicted today's results based on very poor market performance back only a few months ago?

Let's begin with the well-known Dow Jones Industrial Index. The Dow is a familiar and commonly followed index, first calculated in 1896. It is a price-weighted index comprised of 30 stocks. As shown in **Exhibit 4**, those 30 stocks account for only 15% of the total global market value. The methodology associated with inclusion in the Dow excludes most of the FAANG stocks—Amazon, Alphabet (Google), and Facebook. Microsoft, not a FAANG stock, is included.

Exhibit 3: Outperforming Top Stocks Don't Keep Outperforming

Outperformance of top companies before and after becoming one of ten largest in U.S. by market capitalization
Fama/French Total U.S. Market Research index, 1927-2019



Note: *Companies ranked by USD market cap at the beginning of each decade. Data from CRSP.*

In USD. ***Source:*** *Dimensional, using data from CRSP. Includes all US common stocks excluding REITs. Largest stocks identified at the end of each calendar year by sorting eligible US stocks on market capitalization. Market is represented by the Fama/French Total US Market Research Index. Annualized Excess Return is the difference in annualized compound returns between the stock and the market over the 3-, 5-, and 10-year periods, before and after each stocks' initial year-end classification in the top 10. 3-, 5-, and 10-annualized returns are computed for companies with return data available for the entire 3-, 5-, and 10-year periods respectively. The number of firms included in measuring excess returns prior (subsequent) to becoming a top 10 stock consists of 38 (53) for 3-year, 37 (52) for 5-year, and 29 (47) for 10-year.*

Fama/French Total US Market Research Index: The value-weighed US market index is constructed every month, using all issues listed on the NYSE, AMEX, or Nasdaq with available outstanding shares and valid prices for that month and the month before. Exclusions: American Depositary Receipts. Sources: CRSP for value-weighted US market return. Rebalancing: Monthly. Dividends: Reinvested in the paying company until the portfolio is rebalanced.

The most cited index of "The Market" is the S&P 500. The S&P measures the aggregate return of the 500 largest U.S. stocks by capitalization. While it is widely agreed that the S&P 500 adequately represents the U.S. large cap market, **Exhibit 4** shows that it actually consists of less than half of the total global stock market value or about 48% of all publicly-traded stocks.

Whether the Dow or the S&P is "The Market," those indexes poorly benchmark our client strategies. Client asset allocations consist not only of stocks but include bond allocations based on investment policies. When describing performance of "the market," bond returns are typically ignored by the media. Additionally, client allocations include multiple equity asset classes, weighted toward small cap and particularly value stocks. Lastly, while the Dow and S&P represent markets for U. S. large company stocks, clients are diversified among 3500 U.S. stocks and some 10,000 or more stocks outside the U.S. to both increase potential outperformance and to improve the reliability of planning outcomes.

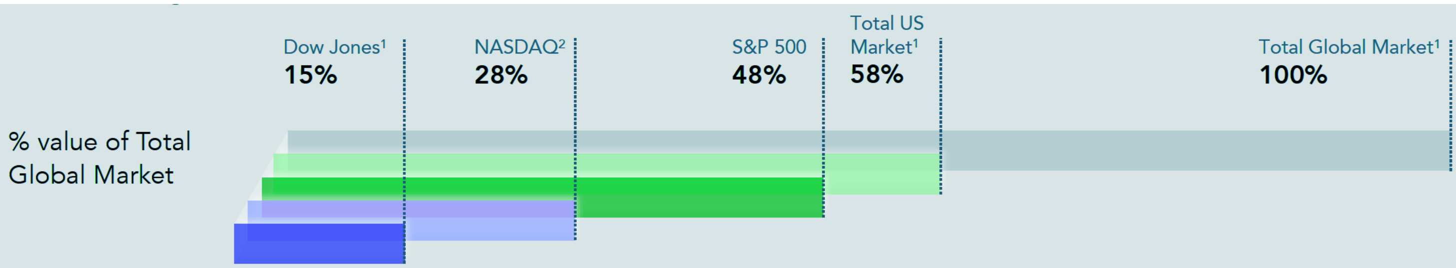
Americans living within the U.S. have a "home bias" for investing. Financial media focuses on U.S. companies and what affects them, rather than report on companies or markets outside of America. The U.S.-based Dow and S&P not good barometers of global stock markets. Rather than unconsciously anchor them as reference points for performance to those indexes, customized benchmarks aligned with your own investment policy as shown in progress reports should be used instead. You read the newspaper or the internet to be an informed citizen, not for advice on how to navigate the financial markets.

Fashionable Investing, Unfashionable Bubbling

After losing a fortune investing in the South Sea Bubble (after first making a bundle and then buying back in),[1] Sir Isaac Newton of *Principia* fame famously reflected that he could "calculate the motions of the heavenly bodies but not the madness of people." That evidently included himself. From tulip mania in 17th-century Amsterdam to railway fever in Victorian Britain, to internet mania of late 20th century America, history is littered with tales of investors who lost their heads shortly before they lost their shirts, in the grip of mass delusions quaintly described by Alan Greenspan, former chairman of the Federal Reserve, as "irrational exuberance."

Delusions arising due to compelling contemporary narratives seem obvious with the cold clarity of hindsight.

Exhibit 4: Which Grouping Represents "The Market"?
Data as of August 31, 2020



	Dow Jones[2]	NASDAQ[3]	S&P 500	Total US Market[1]	Total Global Market[1]
Number of stocks	**30** US stocks	**2,763** US/Int'l stocks	**500** US stocks	**3,511** US stocks	**14,741** US/Int'l stocks
Top 5 Stocks	UnitedHealth Group	Apple	Apple	Apple	Apple
	The Home Depot	Microsoft	Microsoft	Microsoft	Microsoft
	Microsoft	Amazon	Amazon	Amazon	Amazon
	McDonalds	Alphabet (Google)	Alphabet (Google)	Alphabet (Google)	Alphabet (Google)
	Visa	Facebook	Facebook	Facebook	Facebook
Weight of top 5 stocks	**31%**	**41%**	**24%**	**19%**	**11%**

Source: *S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Top 5 stocks for each source measured by market capitalization.*

1. *Dimensional US and Global stocks represent the list of tradeable stocks as of August 31 within Dimensional portfolio management systems. Weights given are market capitalization based weights, with securities capped at 5% maximum. NASDAQ is the set of securities listed on the NASDAQ stock exchange as of the given date, at market capitalization weights. Eligible securities include common stocks, tracking stocks, and ADRs*
2. ***Source:*** *https://en.wikipedia.org/wiki/Dow_Jones_Industrial_Average*

Recognizing them in real time, however, is trickier. Price-to-earnings ratios (comparing a firm's value with its profits) or high return on capital (comparing profitability scaled by size of balance-sheets) haven't worked well for the last several years. This market-related change in valuations of growth and value stocks was compounded by a sharp recession induced by sudden government lockdowns and restrictions causing company earnings to collapse, bankruptcies galore and massive unemployment. Central banks like the Federal Reserve printing trillions to pay for trillions in new government indebtedness and sending short-term interest rates to zero or less have disconnected equity markets from their countries' economies—too often making the rich richer, and the poor poorer.[2]

The S&P 500 index reached an all-time high on August 18th after one of history's sharpest non-war related economic downturns due to ill-considered political policies and practices that hobbled much of the world's commerce for months. **Exhibit 5**, along with Exhibit 1 implies that fashionable FAANG/FAAMA stocks have continued to do extremely well and may be near the point of bubbling. On August 19th shortly after global markets had bottomed

Exhibit 5: FAANG Contribution to US Growth Performance
July 2010–June 2020

	Annualized Compound Return (%)
Value	8.7
Growth	17.0
Growth ex FAANGs	15.2
FAANGs	27.9

Average Weight of FAANGs in Growth (%) 13.6%

Past performance, including hypothetical performance, is no guarantee of future results.

Filters were applied to data retroactively and with the benefit of hindsight. Groups of stocks and their returns are hypothetical, are not representative of indices, actual investments or actual strategies managed by Dimensional, and do not reflect costs and fees associated with an actual investment. Source: Dimensional, using CRSP and Compustat. The index portfolios for July of year t to June t+1 include all NYSE, AMEX, and NASDAQ stocks for which we have market equity for December t-1 and June of t, and (positive) book-to-market equity data for fiscal year ending in t-1. Exclusions: ADRs, Investment Companies, Tracking Stocks, non-US incorporated companies, Closed-end funds, Certificates, Shares of Beneficial Interests, and negative book values. Breakpoints: The book-to-market breakpoints split the eligible NYSE firms with positive book equity into three categories: 30% of the eligible NYSE firms with positive BE are in Low (Growth), 40% are in Medium (Neutral), and 30% are in High (Value). Growth ex FAANG formed similarly but excluding Facebook, Apple, Amazon, Netflix, and Google ("FAANG"). FAANG returns are computed while they are Growth. The average weight of FAANG stocks to growth market cap is computed as the sum of total market cap of FAANG/Growth Stocks divided by the sum of total market cap of Growth stocks. This information is intended for educational purposes and should not be considered a recommendation to buy or sell a particular security. Named securities may be held in accounts managed by Dimensional Fund Advisors.

and began a dramatic recovery from the "Great Fall," Apple became the first American company to reach a valuation of $2 trillion.

Investment returns consist of two parts: the expected return and the unexpected return. The expected return is the best guess of what mostly likely will happen based on currently available information. The unexpected return is the surprise element, the difference randomly between what does happen and what was expected. Investors should decide their investment planning on expected future returns, not the past performance of recent realized returns. The two can differ by a lot. As Professor Kenneth French, the long-time collaborator of Nobel Laureate Professor Eugene Fama observed in "Investing in FAANG Stocks: Should You Expect Unexpected Returns?": After the FAANG stocks earned almost 35% a year for the past ten years, "should we expect an average annual return of almost 35% again? Absolutely not. . . . So what does explain the FAANG stocks' high realized returns? Their unexpected returns. Things turned out much better for them than investors expected. . . . The expected value of the unexpected returns [still] must be zero."[3]

Does this tell us that US stocks, or at least large growth stocks, are in peril of imminent decline? We can't know. There is no evidence that anyone can reliably time market movements. Markets can behave irrationally longer than most investors can stick it out. Because their returns have closely followed global benchmarks for many years, some clients may be surprised that the value return was 8.3% annualized less than the growth return. The FAANGs return of 28% only reduced growth returns by 1.8% annualized, so a value tilt did not substantially reduce overall returns. However, very recently, while the average weighting of the FAANGs was 13.6% for the last ten years, we know from *Exhibit 1* and current data that the more recent weighting of those stocks in the index is closer to 22%.

Using a cost of capital perspective of expected returns based on the same research measures as Professors Eugene Fama and Kenneth French employ, growth stock valuations have ballooned over just the three past years based on Dimensional Fund Advisors calculations:

	U.S. Price-to-Book		Global x U.S. Price to Book Growth	
	Growth	Value	Growth	Value
4Q 2018	13.4	1.5	4.9	0.9
4Q 2019	14.1	1.5	5.5	0.9
3Q 2020	23.6	1.6	6.9	0.8

For those interested in general historical averages, "Growth" is about 3.0 or so; "value" is about 1.0 or so. Recently a well-known hedge fund manager with a once-great record concentrated on "value" strategies returned $10 billion to his investors and decided to retire after 30 years after his past five years results.[4] He is not alone. Billions have been leaving value stocks for the same period. Historically low interest rates near zero has induced speculation and risk-taking unseen since the 1920s. Investors desperately needing income no longer paid by bonds are accepting greater and greater risks in an increasingly fragile economy with U.S. debt now exceeding 100% of GDP and increasing rapidly.

It's becoming like a great game of musical chairs—the dance keeps going until the music stops. It will not end well for those without a chair. I meet many investors who need returns but are unaware of how great their gamble is and who lack the capacity for a large and prolonged growth stock decline. We note also that individual stock trading is at a decade high, on some days being as much as 25% of market volume and become "key drivers" of certain stocks once again.[5]

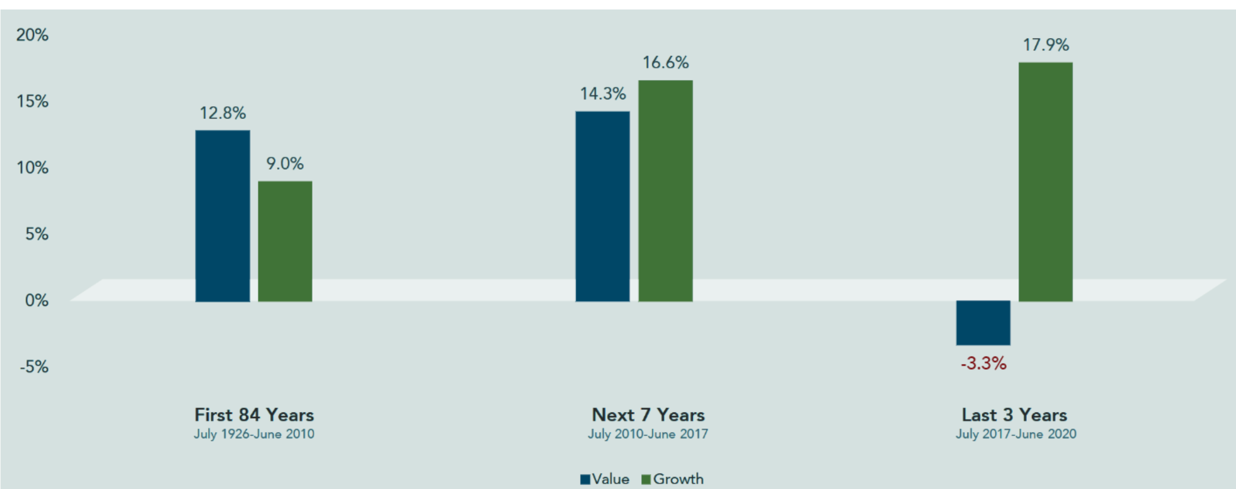
Last year was the largest spread on record between the value and growth premiums in the U.S. Since markets function in an equilibrium as we know from decades of academic research, we expect that an equalizing adjustment eventually will happen, such as occurred in 2000 following the Tech Boom years which lasted for a decade in the 1990s. **Exhibit 6** offers insight how global diversification among multiple dimensions of return, aggressive rebalancing during times of high market volatility, as well as techniques employed by Dimensional to enhance returns have offset the recent negative impact of value tilts. Aside from the existence of a market premium offering a return greater than the risk-free rate (why else would any sensible person invest in equities?), economic theory and research posits a "value" premium. Our U.S. historical market data indicates that value is about 4.54% a year greater than the market's growth return.

Investing Folly When Following Fashion

Psychologists have long known that groups of individuals can be strongly influenced by a herd mentality, or the "madness of crowds," as Charles MacKay, author of *Extraordinary Popular Delusions and the Madness of Crowds*, described it back in 1841. The herd mentality comes from a desire to be part of the group and be part of the "action." This mentality is manifested in the fashion world where, like the length of a skirt or the width of a tie, fashions come into and go out of favor for no apparent reason. But fads are not limited to fashionable dress. For example, westerns dominated television screens in the 1950s but not today. Reality shows have replaced situation comedies that were once a staple of network television.

Since fashions affect social behavior, we should not be surprised that investment behavior has its fashions. Charles MacKay put it this way: "Every age has its peculiar folly:

Exhibit 6: An Unprecedented Three-Year Period for Value Dimension
Annualized Compound Returns, July 1926–June 2020



Performance data shown represents past performance and is no guarantee of future results.

Value and growth stocks represented by the Fama/French US Value Research Index and the Fama/French US Growth Research Index, respectively. Returns provided by Professor Kenneth French, available at http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html.

Exhibit 7: The Dimensions of Expected Market Returns

Performance for periods ending December 31, 2019

Long-term drivers of **STOCK RETURNS**	COMPANY SIZE Small vs. large companies	RELATIVE PRICE[1] Value vs. growth companies	PROFITABILITY[2] High vs. low profitability companies
Long-term drivers of **BOND RETURNS**	TERM Sensitivity to interest rates	CREDIT Credit quality of issuer	CURRENCY Currency of issuance

Diversification does not eliminate the risk of market loss. Performance data shown represents past performance and is no guarantee of future results.
1. Relative price as measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios.
2. A company's operating income before depreciation and amortization minus interest expense scaled by book equity.

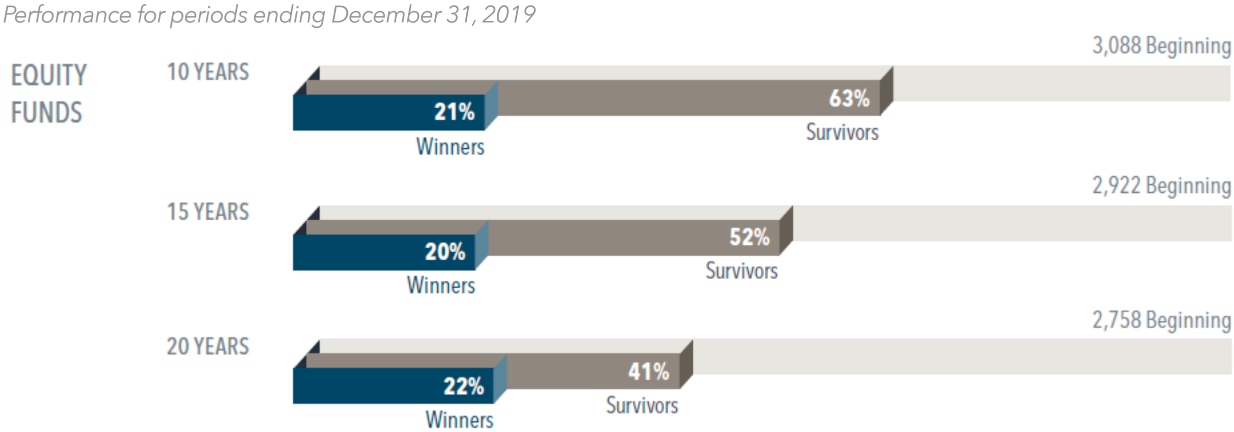
some scheme, project, or fantasy into which it plunges, spurred on by the love of gain, the necessity of excitement, or the force of imitation." Investing is no exception: otherwise rational, intelligent people can come under the influence of herd mentality due to very human emotions of fear and greed motivated by needs and wants where recency bias makes financial rewards or losses loom large in peoples' minds.

Recency bias is the tendency, by an over-focus on the present and extrapolating recent past events too far into the future, to overweight more recent experience in the mind, while w experience or historical evidence that occurred in the more distant past and is harder to remember. The resulting investor behavior is often to abandon sound strategy or discipline at critical points, and then to buy high as the market cycle rises as the group is enthusiastic and then sell low as the cycle bottoms as the group panics.

An astonishing investment statistic is that there are more mutual funds and ETFs than publicly traded stocks in the world. There are three times more hedge fund managers than there are publicly traded stocks in the U.S. The question is: Why are there so many managers and so many funds? While investors usually do poorly earning a return in aggregate close to the risk-free rate of return, mutual funds collect huge fees, advertising revenues for the financial media soar as Wall Street's marketing machines

Exhibit 8: Few Managed Funds Have Both Survived and Outperformed

Performance for periods ending December 31, 2019



Source: *Dimensional Fund Advisors 2020 Mutual Fund Study. The sample includes funds at the beginning of the 10-, 15-, and 20-year periods ending December 31, 2019. Survivors are funds that had returns for every month in the sample period. Winners are funds that survived and outperformed their benchmark over the period. 4,439 US-based mutual funds collectively managing more than $8.7 trillion in shareholder wealth are evaluated.*

gear up to exploit the latest investing fad, and subscription revenues soar as investors yearn to learn new way to make quick money based on the latest investment fashion.

A large proportion of funds that are brought to market by Wall Street marketers fail to survive over the longer term. Based on data from Dimensional's 2020 Mutual Fund Study, of the 2,992 equity mutual funds around 15 years ago, only 52% still existed at the end of 2019. Similarly, among fixed income mutual funds, only 55% of the 1,658 funds available to US-based investors at the beginning of 2005 are still around today. Compare this to Dimensional, of the 31 funds that were around 15 years ago, 100% of those funds are still in existence today. The great majority exceeded their benchmark returns or were very close.

Due to recency bias, people do not notice all the funds that have failed and all the money that must have been lost by someone. Instead they focus on finding "winners" that they read about in the media and imagine how they can become part of the smart crowd that invests in those. But what cannot be known from performance numbers alone is whether those returns were from a solid strategy or just an investing fad following a trend not likely to persist and support their long-term planning goals.

Conclusion

When selecting strategies for their portfolios, investors are often tempted by the latest and brightest investment opportunities as a quick fix for past mistakes or to make up for insufficient savings or simply to retire early. But long-term investors should be aware that letting short-term market movements and trends influence their investment decisions are likely to be highly counterproductive. As segments of the markets outperform at different times, it may become even harder to resist joining in with friends and family who are "making" money or even appearing to get rich. Some early investors will pile in and exit with a profit. But even the most brilliant minds can be fooled. Sir Isaac spotted a bubble early and liquidated his holdings at a good profit—only to be sucked back simply due to FOMO: Fear of Missing Out.

There is no shortage of things you can do as an informed investor to contribute to a better wealth management experience. Professional Financial follows a well-defined investment management process grounded in decades of financial research. Dimensional Fund Advisors does not create bright and shiny products to be sold; their solutions are meticulously designed to be owned, often involving years of research and development efforts. When new portfolios are introduced, those solutions are backed by the most robust research in a world where firms and funds devised by marketing departments come and go.

Fashionable investment approaches will come and go, but remember that a long-term and diversified investment strategy with good cost management based on robust scientific research that fits your needs, preferences, values and goals—plus staying disciplined throughout periods of market volatility and disappointment—working with an established group of wealth planning professionals, most likely maximizes your chances of a successful financial experience and enjoying peace of mind wherever you choose to live throughout what could be many happy years of retirement for you and your family.

Endnotes

1 Due to what we nowadays term "FOMO" or Fear of Missing Out as Newton watched stock prices keep rising.

2 Deficit spending with borrowed repairing windows you broke does not increase aggregate national wealth, contrary to the naïve reasoning and arguments of many politicians giving money away in an election year. More measured steps or simply "focused protection"—a policy of allowing those at minimal risk of death to resume their lives while societies concentrated on better protecting those who are at highest risk—especially as better evidence and improved medical treatments and hospital capacity became available. See for example, Tunku Varadarajan, "Epidemiologists Stray From the Covid Herd," *Wall Street Journal Opinion Section* (October 23, 2020). The Great Barrington Declaration co-authors discuss the direct and indirect costs of lockdown, the science of immunity, and the politicization of the coronavirus pandemic. The many methods for cancellation of dissenting opinions opposing government pronouncements even from eminent economists shows the many ways the madness of crowds can occur as minds become closed as popular narratives replace evidence. Among many costs, induced economic collapse has place 130 million poor people world-wide at risk of starvation.

3 Kenneth R. French, "Investing in FAANG Stocks: Should You Expect Unexpected Returns?", Fama/French Forum (September 24, 2020). Access: https://famafrench.dimensional.com/essays/investing-in-faang-stocks.aspx

4 Jason Zweig, "Intelligent Investor: The Man Who Returned $10 Billion," *Wall Street Journal* (October 24-25) B9.

5 Amrith Ramkumar, "Markets: Individual Investors Are Reshaping the Stock Market," *Wall Street Journal* (August 31, 2020)

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Paul founded Professional Financial Strategies, Inc. as one of the first fiduciary advisory firms in 1993 that now specializes in retirement and wealth planning for affluent and aspiring families. Paul is a personal chief financial officer who acts in the best interest of clients. He brings together a distinctive management process and a network of specialists for making informed decisions for scientifically-structured investing, secure income, mitigating taxes, protecting assets, and preserving wealth for family and causes for making an enduring impact.

Mr. Hill received a BA with distinction from the University of Rochester and later an MBA in finance from its Simon School of Business. He earned an MS in financial services from The American College along with his Chartered Financial Consultant and Retirement Income Certified Professional designations, and then received an MS in financial planning from the College for Financial Planning (now at the University of Phoenix). The College for Financial Planning appointed him as adjunct faculty, and he has taught at St. John Fisher College. Who's Who presented Paul with the Albert Nelson Marquis Lifetime Achievement Award in 2018 and featured him with other recipients in *The Wall Street Journal*.