



**RACHEL  
WAKEFIELD**  
CFA

ABOUT RACHEL  
ANALYTICAL  
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### Fear Sells

Fear dominates headlines and can keep us up at night.

It seems to be the business reporters' job to assess all possible downside scenarios. If these negative headlines never materialize, people are happy. If they do materialize, the listeners cannot say they were not warned. And the cycle goes on and on and on.....

Is all the time spent prognosticating and worrying effective or productive? Humans are risk averse by nature. When things are too good for too long, we get nervous – waiting for the next shoe to drop. We want to avoid pain. We try to avoid losing what we have (at least on paper).

The stock market is a great place to observe all types of risk-taking and risk-avoiding behavior. A short review of market themes can be enlightening (see table on next page).

As you can see, much of what investors worry about or hope for never materializes. It is best to stay the course and invest prudently in low-cost investments. Planning carefully to avoid unnecessary taxes and strategically placing assets into taxable or tax-exempt accounts is a fool-proof way to add purposeful, predictable value to your investable assets.

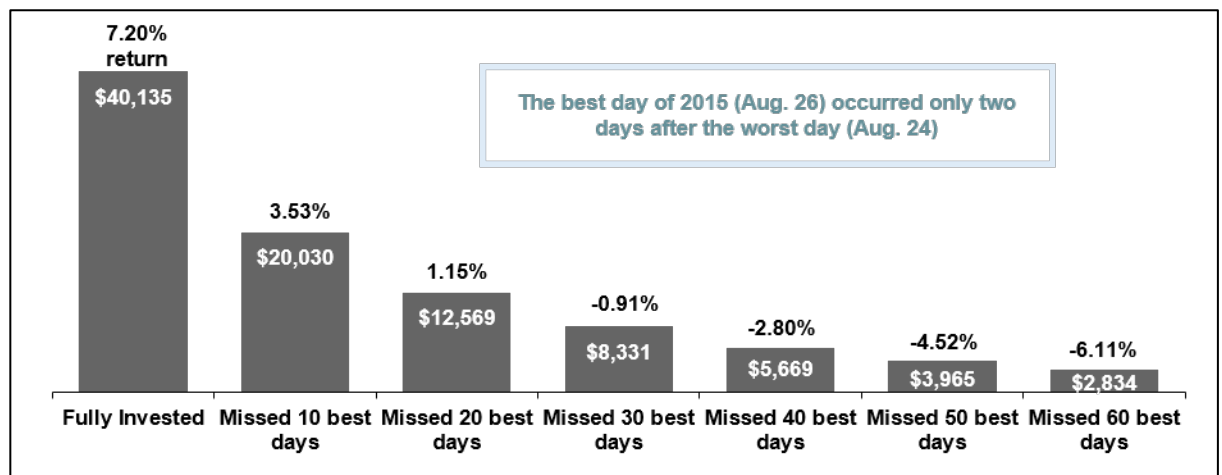


Figure 1. Performance of a \$10,000 investment between January 1, 1998 and December 29, 2017.  
Source: JPMorgan Asset Management

Stock Market Stories	Expectation	Reality
<b>Bitcoin</b> (digital currencies)	<ul style="list-style-type: none"> <li>Distrust of countries/financial systems around the world created a need for an independent currency.</li> <li>Electronic payment systems and technology facilitate relatively easy transfer of funds.</li> </ul>	<ul style="list-style-type: none"> <li>Digital currencies can be utilized for nefarious deeds or black-market transactions.</li> <li>Digital currencies struggle to be a "store of value" as the price varies wildly.</li> <li>Being backed by a stable country is not necessarily a negative.</li> </ul>
<b>Country World Domination</b>	<ul style="list-style-type: none"> <li>Russia would rule the world militarily.</li> <li>Japan would rule the world through technology, manufacturing quality, and intellectual prowess.</li> <li>The European Union would create a powerhouse.</li> <li>China will be dominant because there are so many people, and investments there are creating a large economic block.</li> </ul>	<ul style="list-style-type: none"> <li>Russia's over-investment in military caused an economic collapse.</li> <li>Japan was limited by the war reparations, negative population growth and need to import energy.</li> <li>The European Union is politically and economically diverse, diffusing the ability to be a cohesive power.</li> <li>China's economic growth could be held back by their political systems and oppression.</li> </ul>
<b>Emerging Markets</b>	<ul style="list-style-type: none"> <li>Brazil, Russian, India, China (BRIC's) will be the primary driver of future economic growth and, thus, a great investment.</li> </ul>	<ul style="list-style-type: none"> <li>Emerging economies continue to suffer from corrupt leadership, poor infra-structure, fiscal and budgeting errors, and ineffective enforcement of laws.</li> </ul>
<b>Hot Stocks</b>	<ul style="list-style-type: none"> <li>New technology and future expectations can drive a company's growth forever.</li> </ul>	<ul style="list-style-type: none"> <li>WorldCom, Enron, Nokia, BlackBerry, Motorola.</li> </ul>
<b>Market Timing Works</b>	<ul style="list-style-type: none"> <li>Getting out at the right time will avoid loss.</li> <li>It is possible to get out at the top and in at the bottom.</li> </ul>	<ul style="list-style-type: none"> <li>The best market days occur in concert with down days. Missing these days greatly affects long-term portfolio growth. (<b>Chart 1</b>)</li> </ul>
<b>Bonds/Cash/Annuities are Risk-Free</b>	<ul style="list-style-type: none"> <li>If you save one dollar, you get one dollar back.</li> <li>These are much safer than the stock market,</li> <li>Annuities generate predictable cash flow and demonstrate their safety.</li> </ul>	<ul style="list-style-type: none"> <li>Time can eat away at the value of each dollar, making your overall wealth, aka purchasing power, less than what you originally set aside.</li> <li>Cash payments make annuities attractive but the product is insurance, and the dollar you are putting in is not the same one you get back, creating a possible risk for default.</li> </ul>
<b>Hedge Funds are Superior</b>	<ul style="list-style-type: none"> <li>Index funds only give you the market return. Where is the value added?</li> <li>Hedge funds are built to outperform the stock market.</li> </ul>	<ul style="list-style-type: none"> <li>Most hedge fund returns have trailed market returns during up, down, and sideways markets for years.</li> <li>Fee structure is complex and high.</li> </ul>