INVESTMENT UPDATE

Saltmarsh
Financial Advisors, LLC
AN AFFILIATE OF SALTMARSH, CLEAVELAND & GUND

4th Quarter 2019

Join us for "INVESTMENTS & TAXES"
Understanding the Benefits of a Coordinated Approach

Saltmarsh Financial Advisors invite you to join us for an Investments & Taxes event series across Florida. The series will shed a light on how a 'one team' approach to planning for your financial future provides peace of mind and benefits your bottom line.

Each session will feature a panel discussion with financial planning, tax, estate and investment professionals from Saltmarsh Financial Advisors and Dimensional Fund Advisors to help answer your questions and leave you with a better understanding on the benefits of a coordinated approach to planning for your future.

Inside This Issue

PENSACOLA
Tuesday, January 28
8:00 am - 9:30 am
Pensacola Yacht Club, Pensacola FL
Breakfast & refreshments provided.

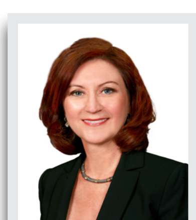
DESTIN
Tuesday, January 28
5:00 pm - 6:30 pm
Regatta Bay Clubhouse, Destin, FL
Cocktails & light bites provided.

TALLAHASSEE
Wednesday, January 29
11:30 am - 1:00 pm
Governors Club, Tallahassee, FL
Lunch & refreshments provided.

TAMPA
Thursday, January 30
11:30 am - 1:00 pm
The University Club, Tampa, FL
Lunch & refreshments provided.

TO RSVP

contact Nancy Patton at nancy.patton@saltmarshcpa.com or by phone at (800) 477-7458
Addditional event details can be found at saltmarshfa.com



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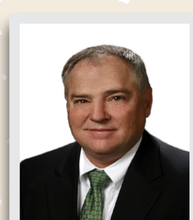

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How Markets Work and the FAANG Mentality

From the Dimensional Fund Advisors Blog, November 2019

Research has shown no reliable way to predict the top-performing stocks, arguing for diversification instead.

The stocks commonly referred to by the FAANG moniker — Facebook, Amazon, Apple, Netflix, and Google (now trading as Alphabet)—have posted impressive gains through the years, with all now worth many times their initial-public-offering prices. The notion of FAANG stocks as a powerful group holding sway over the markets has sunk its teeth into some investors. But how much of the market's recent returns are attributable to FAANG stocks? And does their performance point to a change in the markets?

Over the 10 years through December 31, 2018, the US broad market[1] returned an annualized 13.4%, as shown in Exhibit 1. Excluding FAANG stocks, the market returned 12.6%. The 0.8-percentage-point bump resulted from the FAANGs collectively averaging a 30.4% yearly return over the decade.

Investors may be surprised to learn that it is actually common for a subset of stocks to drive a sizable portion of the overall market return. Exhibit 2 shows that excluding the top 10% of performers each year from 1994[2] to 2018[3] would have reduced global market performance from 7.2% to 2.9%. Further excluding the best 25% of performers would have turned a positive return into a relatively large negative return.

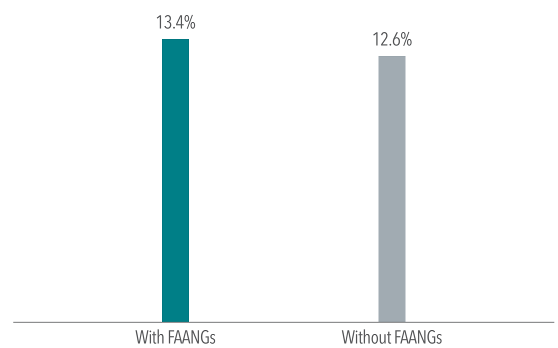
This lesson also applies to capturing the premiums associated with a company's size and its price-to-book ratio. Research by Eugene Fama and Kenneth French ("Migration," 2006) provides evidence that these premiums are driven in large part by a subset of stocks migrating across the market.

Research has shown no reliable way to predict the top-performing stocks. Looking at the top 10% of stocks by performance each year since 1994, on average less than a fifth of that group has ranked in the top 10% the following year.

The tendency for strong market performance to be concentrated in a subset of stocks is therefore also a cautionary tale about the importance of diversification—investors with concentrated portfolios may actually miss out on the very stocks that deliver the best of what the market has to offer. An investment approach built around broad diversification can help achieve a more reliable outcome for investors over the long term—sharp acronym or not.

Exhibit 1: A Little Help from the FAANGs

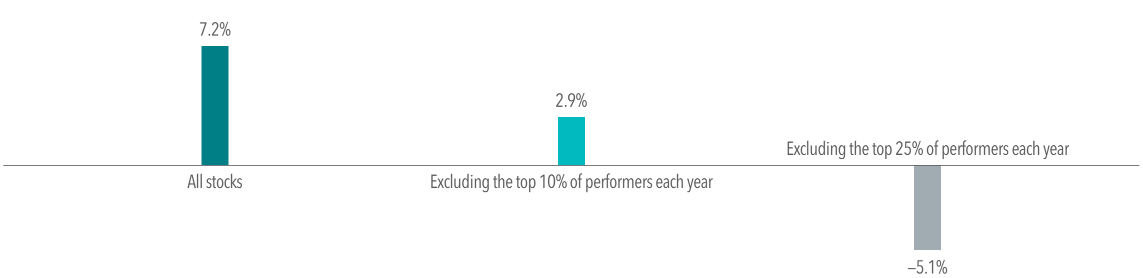
Annualized US market compound returns with and without Facebook, Amazon, Apple, Netflix, and Alphabet (Google), 2009–2018



Source: Dimensional using data from the Center for Research in Security Prices (CRSP) covering the 10 calendar years since the financial crisis. With FAANGs portfolio formed each month including common stocks listed on NYSE, NYSE MKT, and NASDAQ. Stocks are weighted by market capitalization. Without FAANGs formed similarly but excluding Facebook, Apple, Amazon, Netflix, and Alphabet (Google). Past performance is no guarantee of future results.

Exhibit 2: Weighing the Impact

Global stock market performance excluding top performers, 1994–2018



"All stocks" includes all eligible stocks in all eligible developed and emerging markets at their market cap weights. Eligible stocks are required to meet a minimum market capitalization requirement. REITs and investment companies are excluded. Compound average annual returns are computed as the compound returns of the value-weighted averages of the annual returns of the included securities. "Excluding the top 10%" and "Excluding the top 25%" are constructed similarly but exclude the respective percentages of stocks with the highest annual returns by security count each year. Individual security data are obtained from Bloomberg, London Share Price Database, and Centre for Research in Finance. The eligible countries are: Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Republic of Korea, Malaysia, Mexico, Neterlands, New Zealand, Norway, Peru, Philippines, Poland, Portugal, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, the UK, and US. Diversification does not eliminate the risk of market loss. Past performance is no guarantee of future results.

1. With-FAANGs portfolio formed each month including common stocks listed on NYSE, NYSE MKT, and NASDAQ. Stocks are weighted by market capitalization. Without-FAANGs formed similarly but excluding Facebook, Apple, Amazon, Netflix, and Alphabet (Google). Source: Dimensional using data from CRSP. 2. The onset of broad coverage of all-cap stock data across developed and emerging markets. 3. All eligible common stocks in all eligible developed and emerging markets, ranked by total return. Source: Dimensional, using data from Bloomberg LP.

Hindsight Is 20/20. Foresight Isn't.

From the Dimensional Fund Advisors Blog, December 2019

The Greek stock market swung from a 37% decline last year to a 37% advance this year.

The year 2019 served up many examples of the unpredictability of markets.

Interest rates that US policy makers expected to rise fell instead. American consumers' confidence weakened as the year began,[1] and news headlines broadcast fears of an economic slowdown. But investors who moved onto the sidelines may have missed the gains in the US stock market. As of the end of October, the S&P 500 was up more than 20% for the year on a total-return basis. That puts it on course for the best showing since 2013 should that gain hold through December.

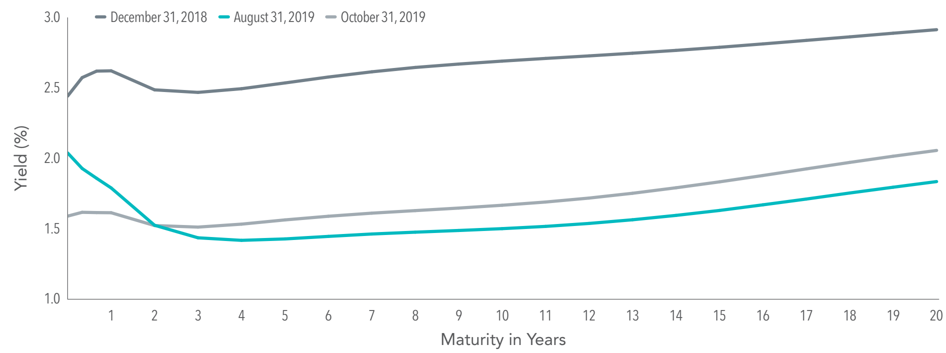
Outside the US, Greece—the site of an economic crisis so dire some expected the country to abandon the euro earlier this decade, and a country whose equity market lost more than a third of its value last year—has had one of the most robust stock market performances among emerging economies in 2019. On top of that, Greece issued bonds at a negative nominal yield, which means investors paid for the privilege of lending the government cash.

Taken as a whole, it's a reminder that the prediction game can be a losing one for investors.

This lesson also applies to capturing the premiums associated with a company's size and its price-to-book ratio. Research

Exhibit 1: Shifting Curves

Yields on US Treasuries of various maturities since the end of 2018



Source: ICE BofAML fair value government spot yield. ICE BofAML index data © 2019 ICE Data Indices, LLC.

Exhibit 2: Changes in the Ranks

Performance of equity markets in 23 developed and 24 emerging economies

Developed Economies

2018		2019 YTD	
Finland	−3.43%	Switzerland	25.19%
New Zealand	−3.97%	Netherlands	24.45%
USA	−5.04%	Ireland	24.37%
Israel	−5.48%	Italy	23.22%
Hong Kong	−7.83%	USA	22.67%
Norway	−8.63%	Canada	21.30%
Switzerland	−9.08%	France	20.05%
Singapore	−9.41%	New Zealand	20.02%
Portugal	−11.09%	Australia	19.92%
Australia	−11.99%	Portugal	19.08%
France	−12.76%	Denmark	17.74%
Japan	−12.88%	Japan	16.51%
Netherlands	−13.11%	Germany	16.40%
Sweden	−13.68%	Belgium	15.61%
United Kingdom	−14.15%	Sweden	14.65%
Denmark	−15.43%	United Kingdom	13.18%
Spain	−16.19%	Austria	13.08%
Canada	−17.20%	Singapore	12.84%
Italy	−17.75%	Spain	7.99%
Germany	−22.17%	Hong Kong	7.67%
Ireland	−25.31%	Israel	6.15%
Belgium	−26.93%	Finland	6.11%
Austria	−27.44%	Norway	5.13%

Emerging Economies

2018		2019 YTD	
Qatar	29.84%	Russia	40.37%
Peru	1.56%	Egypt	39.29%
Russia	−0.39%	Greece	36.95%
Brazil	−0.49%	Taiwan	25.04%
Czech Republic	−4.45%	Colombia	22.67%
Thailand	−5.53%	Brazil	17.61%
Malaysia	−6.03%	Philippines	12.45%
Hungary	−6.12%	China	11.97%
India	−7.30%	Thailand	8.74%
UAE	−7.74%	Mexico	8.56%
Taiwan	−8.94%	Hungary	7.49%
Indonesia	−9.21%	India	6.56%
Colombia	−11.53%	UAE	5.57%
Poland	−12.87%	Indonesia	4.84%
Egypt	−14.00%	Korea	3.76%
Mexico	−15.53%	Peru	2.25%
Philippines	−16.52%	Turkey	1.96%
China	−18.88%	South Africa	0.35%
Chile	−19.65%	Czech Republic	−1.11%
Korea	−20.94%	Malaysia	−3.84%
South Africa	−24.76%	Poland	−4.13%
Pakistan	−34.79%	Qatar	−4.95%
Greece	−36.84%	Pakistan	−7.51%
Turkey	−41.40%	Chile	−15.27%

Source: MSCI country indices (net dividends) in USD for each country listed. MSCI data © MSCI 2019, all rights reserved. 2019 YTD as of 10/31/19. Note: Emerging economies do not include Argentina and Saudi Arabia, which MSCI classified as frontier and standalone, respectively, prior to May 2019.

UP OR DOWN?

A closer look at interest rates and the bond market shows just how unpredictable asset performance can be. Going into 2019, Federal Reserve officials expected economic conditions to support raising a key interest rate benchmark twice. Instead, policy makers lowered it three times.

In the market for US Treasuries—where market participants set interest rates—the yield curve that tracks Treasuries inverted

1. Based on readings from the Conference Board Consumer Confidence Survey and the University of Michigan Index of Consumer Sentiment.
2. Markets designated as developed or emerging by MSCI.

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(Continued on Pg. 4)

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Hindsight Is 20/20. Foresight Isn't. *(Cont.)*

for the first time in more than 10 years, as seen in Exhibit 1. Some long-term yields fell below some short-term yields over the summer. What's more, yields on medium- and long-term bonds were at historically low levels at the start of the year, but they fell even lower by the end of October. Investors who made moves based on the expectation yields would rise in 2019 may have been disappointed in how events ultimately transpired.

TRADING PLACES

Events weren't any easier to anticipate in the global equity markets, where no evident link appears between markets that performed well last year and those that have excelled this year, as Exhibit 2 shows.

Among the 23 developed market countries,[2] only one country was a Top 5 performer for 2018 and 2019: the US. Last year's strongest performing market—Finland—ranked 22nd this year through the end of October. Among emerging markets, Greece swung from a 37% decline last year to a 37% advance this year through the end of October.

PERENNIAL WISDOM

History has shown there's no compelling or dependable way to forecast stock and bond movements, and 2019 was a case in point. Neither the mainstream prognostications nor the hindsight of recent strong performance predicted outcomes in 2019.

Rather than basing investment decisions on predictions of which way debt or equity markets are headed, a wiser strategy may be to hold a range of investments that focus on systematic and robust drivers of potential returns. Investors who were broadly diversified across asset classes and around the globe were in a position to potentially enjoy the returns that the markets delivered thus far in 2019. Last year, this year, next year—that approach is a timeless one.

INVESTMENT INSIGHTS

Find more investment insights and updates at **saltmarshfa.com/insights**

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