# INVESTMENT UPDATE

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

1st Quarter 2021


## New Tax Deadline

The IRS has announced that 2020 tax returns for individuals and related payments have been extended until May 17th. Please note the due date for an individual's quarterly estimated tax payments will still be due by April 15th.

## IRA Contributions

Please reach out to your advisor if you plan on making a 2020 IRA contribution - the deadline to make an IRA contribution(s) is April 15th.

## Join Us for a "Reflections and Lessons for Investors in 2021" Webinar

An unprecedented year!? We're excited to offer the opportunity to engage with Apollo Lupescu, PhD and Vice President at Dimensional Fund Advisors, one of the largest and most reputable investment managers in the country. **Dr. Lupescu will review key lessons learned from 2020 and discuss how this information can benefit investors as we settle into 2021 under a new administration.** He will also touch on timely topics that are top of mind for many investors and retirees:

- Policy moves and the impact on the markets, interest rates and inflation
- Disconnect between the market and the economy: Main Street vs. Wall Street
- What role does fixed income play in a portfolio and does it have a place going forward?
- Small-cap value investing-what's all the hype?
- The role of Bitcoin and digital currency

**Thursday, April 1st**

2:00-3:00 pm CST/3:00 -4:00 pm EST

Please RSVP to Nancy Patton at nancy.patton@saltmarshcpa.com or (800) 477-7458.

**ABOUT THE SPEAKER | Apollo D. Lupescu, PhD**

Apollo is a Vice President at Dimensional Fund Advisors, where he started in 2004 after finishing his PhD in economics and finance at the University of California, Santa Barbara. During his tenure at the firm, Apollo has gained experience in a wide variety of practical subject matters. He is currently Dimensional's "secretary of explaining stuff." In this role, he frequently presents around the country and the world at financial advisor professional conferences and individual investor events. Prior to joining Dimensional, Apollo had his own consulting firm, which provided services to the US Department of State and the White House on a variety of projects.

## Inside This Issue



**Christina Doss, AAMS®**
***Managing Director***
christina.doss@saltmarshfa.com
(800) 477-7458

**Chris Stennett, CFP®**
***Financial Advisor***
chris.stennett@saltmarshfa.com
(800) 477-7458

**Mark Hemby, CFA®**
***Financial Advisor***
mark.hemby@saltmarshfa.com
(800) 477-7458

# YOLO, Meme, and EMH: What's Your Investment Style?

by Marlena Lee, PhD, Global Head of Investment Solutions, Dimensional Fund Advisors | February 18, 2021

You only live once! Social media investors have banded together on unconventional platforms to drive up the prices of a handful of "meme stocks," seemingly without traditional evaluation of investing risks and rewards. They made headlines with their "short squeeze" of GameStop (GME), and, as they garner media attention, their tactics continue. While it's not the intended victim of the YOLO traders, will the efficient market hypothesis be a casualty of these events? The answer depends a lot on your definition of efficient markets. Perhaps long-term investors would be better served questioning the potential impact on their investment philosophy.

Fama (1970) defines the efficient market hypothesis (EMH) to be the simple statement that prices reflect all available information. The rub is that it doesn't say how investors should use this information. EMH is silent on the "correct" ways investors should use information and prices should be set. To be testable, EMH needs a companion model: a hypothesis for how markets and investors should behave. This leaves a lot of room for interpretation. Should asset prices be set by rational investors whose only concerns are systematic risk[1] and expected returns? It seems implausible to link recent meme-stock price movements to economic risks. Rather, they seem fueled by investor demand to be part of a social movement, hopes to strike it rich with a lucky stock pick, or plain old schadenfreude.

There is a vast ecosystem of investors, from individuals investing in their own accounts to governments and corporations who invest on behalf of thousands. Ask investors why they invest the way they do, and you'll likely get a range of goals and approaches just as diverse. It's this complex system that generates the demand for stocks. Another complex system fuels the supply of stocks. Supply and demand meet at the market price. People may contend that the market is not always efficient, or rational, but the stock market is always in equilibrium. Every trade has two sides, with a seller for every buyer and a profit for every loss.

There are plenty of well-studied examples that show supply and demand at work. The huge increase in demand for stocks added to a well-tracked index often creates a run-up in the stock price. Some of this price increase can be temporary and reversed once the tremendous liquidity demands at index reconstitution[2] are met. Index reconstitution is just one example; instances of liquidity-driven price movements happen all the time. It is well documented that liquidity demands can produce temporary price movements.[3] Investors may wonder if temporary price dislocations motivated by users of r/WallStreetBets differ from those caused by changes to an index. Lots of buying puts temporary upward pressure on prices, which later fall back to "fundamental value"– it sounds familiar. The more relevant observation may be that markets are complex systems well adapted to facilitate the supply and demand of numerous market participants.

There are numerous reasons people may be willing to hold different stocks at different expected returns. Can all those differences be explained by risks? Doubtful. To quote Professor Fama, "The point is not that markets are efficient. They're not. It's just a model."[4] EMH can be a very useful model to inform how investors should behave. We believe investing as if markets are efficient is a good philosophy for building long-term wealth. Trying to outguess markets might be a quick way to destroy wealth.

It's true, you only live once. The good news is that investors can look to market prices, not internet fads, to pursue higher expected returns. Theoretical and empirical research indicate higher expected returns come from lower relative prices and higher future cash flows to investors. Long-run investors can be better served by using markets, rather than chatrooms, for information on expected returns.

1. Systematic risk is the possibility of an investor experiencing losses due to factors that affect the overall performance of the financial markets in which he or she is involved. 2. Reconstitution involves the re-evaluation of a market index. The process involves sorting, adding, and removing stocks to ensure that the index reflects up-to-date market capitalization and style. 3. For example, see "Tesla's Charge Reveals Weak Points of Indexing" (Dimensional, 2021) 4. "Are markets efficient?" – Interview between Eugene Fama and Richard Thaler (June 30, 2016)



# Don't Let Your Emotions Get the Best of Your Investments

from The Vanguard Group, Inc.

Investing can be emotional. Even seasoned investors can act impulsively in the face of turbulent markets, incendiary headlines, or the lure of the hottest new fund. That's why a carefully considered investment plan is an important tool to help you keep things in perspective. In times of uncertainty, ask:

Have my goals changed?
Has my time horizon changed?
Have my constraints changed?

Meet with your advisors to revisit your financial plan.
Odds are, you'd do well to stick with your financial plan.

This is standard financial advice. Yet, like many investors, you may find yourself considering an impromptu change to your portfolio.

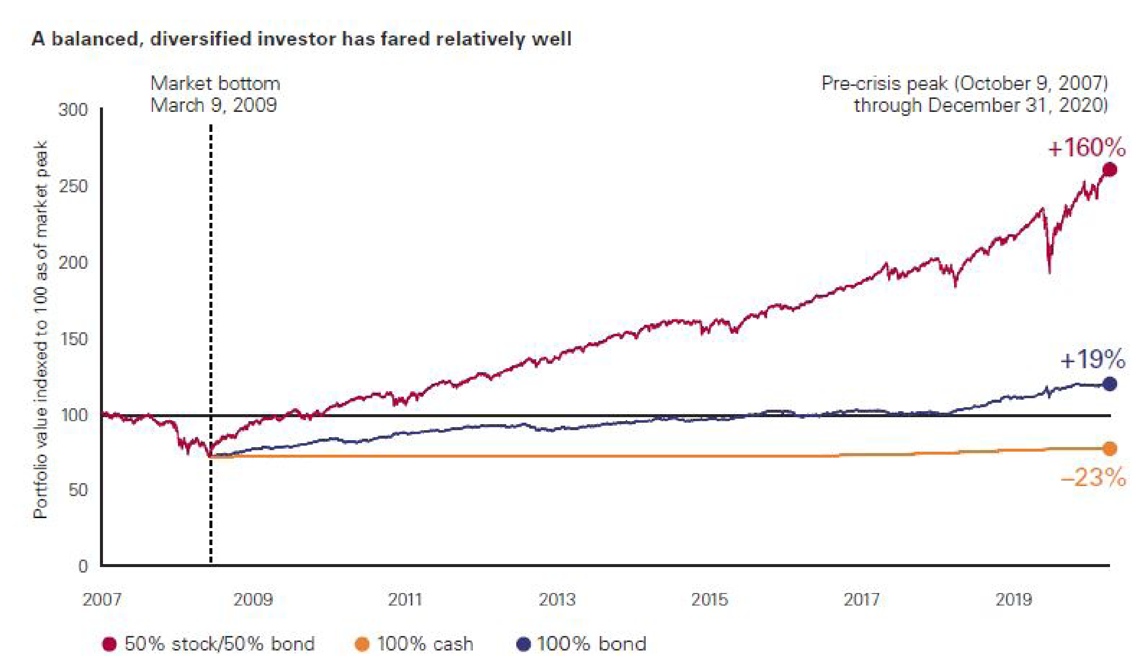
**HERE ARE A FEW TIPS TO KEEP YOU ON TRACK:**

***Fully understand your financial plan***

- Your plan should be based on your individual circumstances, including asset allocation, risk tolerance, savings rate, and short- and long-term goals.
- Understanding the reasoning behind the elements of your plan can help you stick to it over time.

***Focus on asset allocation, not funds***

- Unlike with a consumer purchase, product ratings are typically poor criteria for investment decisions.
- In the United States, more than 90% of return variability of a diversified portfolio can be explained by the asset allocation policy.[1]




Source: FactSet. Notes: The 50% stock/50% bond portfolio is represented by the Standard & Poor's 500 Index and the Bloomberg Barclays U.S. Aggregate Bond Index (rebalanced monthly). The 100% bond portfolio is represented by the Bloomberg Barclays U.S. Aggregate Bond Index. The 100% cash portfolio is represented by 3-month Treasury bills. *Past performance is no guarantee for future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.* This is a hypothetical illustration.

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**Saltmarsh Financial Advisors**

Pensacola:
900 North 12th Ave
Pensacola, FL 32501
Phone: (850) 435-8300

Tampa:
201 N. Franklin St., Ste 1625
Tampa, FL 33602
Phone: (813) 287-1111

Ft. Walton Beach
34 Walter Martin Rd
Ft. Walton Beach, FL 32548
Phone: (850) 243-6713

Email:
christina.doss@saltmarshfa.com
george.peaden@saltmarshfa.com
chris.stennett@saltmarshfa.com
mark.hemby@saltmarshfa.com
brett.snyder@saltmarshfa.com
pierce.broscious@saltmarshfa.com

# Don't Let Your Emotions Get the Best of Your Investments *(Cont.)*

from The Vanguard Group, Inc.

### *Avoid reactionary decisions*

- Investors who flee the market may miss the worst and the best trading days.
- A balanced portfolio is designed to withstand market turbulence over time.
- Impulsive actions disrupt adherence to your financial plan, which was carefully constructed to best serve your needs.

### *Work with your advisor to rebalance*

- Sticking with your financial plan also means rebalancing as scheduled.
- While you may be reluctant to sell a few good performers, maintaining your asset allocation is important to help minimize risk.
- Historically, portfolios that were rebalanced as scheduled fared better than those that weren't.

### *Revisit the Principles for investing success*

- A focus on goals, balance, costs, and discipline is an important foundation for a successful portfolio.

1. Vanguard calculations using data from Moringstar. Calculations are based on monthly returns for 518 U.S. balanced funds from January 1990 through September 2015. For details of the methodology, see the Vanguard research paper The global case for strategic asset allocation and an examination of home bias (Scott, et al., 2017). Note: For asset allocation to be a driving force of an outcome, one must implement the allocation using vehicles that approximate the return of market indexes.