4.6.21

ACTIVE VS. PASSIVE

We looking forward to welcoming the spring weather!

Our temporary yet strategic position in cash has proved to be most prescient as the benchmark for bonds (Aggregate Bond Index) is down more than 3% this year and holders of intermediate treasuries are down over 5%! Many broker-dealers create standardized portfolios based on risk tolerance, which include anywhere from 40% to 80% of these types of bonds. These portfolios are seldom reviewed or adjusted for current conditions nor are they optimized outside of whatever pre-determined periodic cycle, most often quarterly. The world of bond investing has come under major pressure with increasing inflationary pressures and rates, though still low, are moving beyond our comfort zone

A key component of our investment approach is vigilance and flexibility. The intraday shifts we are seeing recently in stocks, bonds, currencies are similar to the magnitude of shifts that used to happen gradually over months, if not over a full year – now they can happen in a single day! These types of gyrations don't happen in a vacuum. There is often a consequence or fallout that eventually unfolds and can spell major losses from such pronounced volatility. ***The funny thing is that, for those not watching as closely as we do, it all looks sort of harmless month to month but nothing could be farther from the truth!***

When buying into emotion and momentum-driven investment sectors like biotech and solar/clean energy, it helps to know that these sectors can beat returns of the overall stock market while also understanding that the majority of the companies that make up these indexes are not profitable. Investors are often attracted to them due to their potential to recover, spurred on by Covid vaccines or green energy initiatives from the new administration.

We want to stress that this is not the market to simply "buy and hold." One has to have a "boots on the ground" and "eyes wide open" approach to these often whipsaw changes in markets. A major part of our mandate is to make reasonable and rational returns without major drops in the value of your portfolio. The path to success is not to take unneeded losses and these trades give evidence to flexible, informed and active management. We frequently meet with prospects who have been referred to us who have managed portfolios that haven't changed or responded to today's difficult terrain – ***and that is where we thrive the most.***

Over the past two months, we have seen an inordinate number of simultaneous manias or bubble creation. This is in contrast with the old days, when it was just one or two at a time – recall the tech bubble of the late 90s or the subprime mortgage crisis of 2008 or the Covid fallout in 2020. ***What is similar with bubbles of ages past, is that today's markets were all built on emotionalism over fundamentals, excessive leverage, and unbridled debt expansion.*** For a few brief moments, the winners got richer and then whoever was unknowingly left holding the "hot potato" suffered overwhelming losses.

While these bubblicious frenzies live, die and live yet again, it isn't unusual to see major stock indexes fluctuate as much as 8% up or down in a few trading hours, like the Russell 2000 did last week! In addition to last week's activity, after a whirlwind rally, the stock of CBS Viacom fell 57% in two days. Overall, the market appeared to yawn and come up with a few simplistic and incorrect assumptions – yet over the weekend it turned out that an overleveraged hedge fund with a massive position in CBS and other communication companies risked wiping out their investors while nearly taking down two large overseas banks (Credit Suisse and Nomura) in the process.

Even with all of the “feel good” euphoria over the passage of the $1.9 trillion stimulus package and, if that wasn’t enough, before that money is fully spent on Chinese goods from Amazon, we have the new administration revealing a new multi-trillion-dollar infrastructure package. But, even with this wave of fresh liquidity that will eventually wind its way into markets, conditions strike us as more hesitant than jubilant.

In momentum-driven markets, the dips become shallow and the ensuing levitation can leave schooled risk managers in the dust, albeit temporarily. Those emotion-driven markets draw in a surge of new investors from the far reaches of the investing woodwork who are now fully ready to gamble with the house’s money (in the form of a $1400 stimulus check, the proceeds from their cash-out refi, their credit cards, and – if you happen to be a hedge fund – those numbers move up into the billions – all ready to get on the gravy train. ***We say not so fast!*** Tread slowly, look both ways, and make calculated changes to either gain appreciation and interest but more importantly to protect when downdrafts materialize. As always, we will continue posting articles that we believe to be of great informational value on our website, under the “Great Articles” tab, which is linked here:

http://summitplan.com/cgi-bin/htmlos.cgi/great_articles.html.

Additionally, the “Summit Planning Financial Hour” will be live this week on Radio 570-WSYR at 10AM on Saturday. Don’t forget to tune in for a recap of the week’s events. If you cannot tune in, check out our radio show archive on our website at http://summitplan.com/cgi-bin/htmlos.cgi/radio_shows.html.

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