

TILIA



NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

The 21st Century

The day-to-day news can be a drag. Violence, inequality, racism, and lack of mental health awareness are a few of the issues that continue to plague our society. The volume on these & other issues is always turned up even higher in an election year. Many people out there feel like our best days are behind us; that America is not the hub of freedom & innovation that it was in the past. That opinion could not be more wrong.

Let's review the 21st century thus far. In a short 16 years, the world has changed dramatically. We are living in a technological golden age; a tide that truly lifts all boats. While you don't hear about all of the stunning advances in the daily news cycle, it is shocking to take stock of all that's happened, and how much our daily lives have been impacted as a result.

Here is a short, and very incomplete list of some of the advances of the last 16 years:

- 1) Smartphones - It's hard to name one thing that's had a larger impact. These devices have created a whole new economy on their own. Remember when you couldn't "google map" your destination on the fly, remember a favorite song and immediately listen to it, or watch a live sporting event in the palm of your hand? Most of us remember those times, and very few of us want to go back.
- 2) Biologics - You could write an entire book on healthcare advances, but one of the primary topics would be the emergence of biologic treatments. These treatments have given new life to people suffering from Rheumatoid Arthritis, Hepatitis C, HIV, and a whole host of other life-shattering conditions. (Continued on page 2)

Behavior: The Great Investor Differentiator



It's part of our nature. As humans, we're hard-wired to avoid loss or harm. When faced with one of those prospects, we run. If our instincts tell us that running isn't a viable option, we turn and fight for our lives. Those instincts manifest themselves in our behavior as investors as well. The average investor can't stand to watch their investments lose value. While we might be able to sustain a little up & down, a noticeable downward spiral in investment values triggers a response to get out. Fighting back is the other option, which can result in taking on additional risk to try and recoup losses, blaming policy makers or other market participants, or in some cases with individual stocks - doubling down on an investment that's headed south. While these instincts don't translate into good investor behavior, we can thank them for keeping our ancient ancestors around long enough to procreate and make our very existence possible.

We work hard to select and manage sound investments in a prudent manner, but the most important part of what we do is behavioral. Part of that is our own behavior as investors, trained & honed over time, improved through a desire to continue learning from history's lessons and others' experiences & teachings. The other part is as behavioral coaches to our clients. After all, the best investment in the world, coupled with bad behavior almost always equals loss. Many of history's best stock investments look crystal-clear with the benefit of hindsight, but investors that captured the bulk of the return suffered through gut-wrenching declines, hurricanes of doubt, and the temptation to sell when times got tough or to "lock-in" the gain when the stock seemed rich. In most of life's endeavors, sticking one's "head in the sand" is a terrible strategy - with stock investing, it can make you very rich.

Growing financial assets through the compounding of gains, interest & dividends requires extreme patience. Success doesn't require an ace stock-picker or an expensive hedge fund. All it really takes is decent investments coupled with great behavior. The best investors buy stocks in good companies and own them for a very long time. That is what we are striving to do for our clients at Tilia. Sticking with stock investments over time can be tough, so we work hard to develop a mix of investments, including high-

Bond Bulls Betting on "The Greater Fool"

The bond market has now entered the twilight zone, a bizarre world where demand outstrips supply, regardless of the potential for long-term return. While the US has moved away from so-called "Quantitative Easing" - the practice of printing money and using it to buy up our own government bonds, the rest of the developed world has gone all-in. In Europe, where the central bank has expanded the program to include corporate bonds, the increased demand has pushed yields (the combined interest rate and premium/discount to face value) of bonds to near or below zero. Out of the 40 trillion dollars of global government debt outstanding, 13 trillion of that now boasts a negative yield - investors are agreeing to accept less money in the future than they are lending today.

As recently as two years ago, nearly everyone thought that interest rates had to move up to more attractive levels. These days it is difficult to find anyone that believes rates won't stay low forever. Investors that have piled into long-term, low/no interest rate bonds have made a killing. This is especially the case in the U.S., where foreign buyers have piled into long-term US treasuries, thanks to the spread between US & comparable international bonds. With little to no interest offered on these bonds, new investors are betting on the "greater fool" - rather than buying & holding, they are expecting to be able to sell to someone else at an even higher price. So far the practice has worked. Investors in the Pimco 25 year zero-coupon bond treasury index has gained 24.5% YTD in 2016!

It's difficult to think about today's bond market without drawing parallels to historic bubbles. Just like with tulips in the Netherlands and tech stocks in the late 90's, betting on the greater fool paid off handsomely for a while, before ending in tears for the bag-holders. While we can't avoid the bond market all together, we are avoiding long-term bonds like the plague.

quality bonds that will help lessen the magnitude of declines and keep you focused on your plan.

Recognizing your risk tolerance realistically when the seas are still calm is both paramount, and incredibly tough to do. If the conclusion drawn is incorrect, you'll be fighting the urge to get more conservative after an unsettling market decline. That's the equivalent of getting parachute training after you've already jumped out of the plane! While we still hold a positive view on global stocks, it's as important as ever to make sure that each client is being honest with themselves about what kind of volatility they can stomach. We don't possess a crystal ball that will give us precise details of the next economic storm to hit. We can say that without a doubt, there will be more storms & each will be a little different from the last. As advisors, we'll put ourselves between you and the big mistake, and we'll work diligently to ensure that your portfolio matches your tolerance for risk.

The 21st Century (continued)

3) Advances in renewable energy - Renewable energy consumption in the world effectively doubled from 2010 to 2014. Driven by improved technology & falling costs, many countries in the world now have their sights set on a fully renewable power supply in the next decade.

4) Vaccines for cancer prevention - HPV is the leading cause of cervical cancer. Thanks to a vaccine that now prevents HPV, that is one less thing our next generation will have to worry about. Cancer is the biggest health challenge we face today. Anything we can do to identify and eliminate or mitigate the root causes has an enormous benefit to society.

5) Facebook & social media - One person's time-waster is the lifeblood of another's business. It has never been cheaper and easier to promote one's business or cause to the masses with minimal investment.

6) The Cloud - Physical file storage, printers & the network equipment of yesterday are on the endangered list, thanks to cloud storage.

7) Uber/Lyft - Taking an uber is not just a better way to travel than most taxi services. The incredible ease with which one can access the platform has no doubt saved a staggering amount of lives by contributing to a massive decrease in impaired drivers on our roads.

8) Bluetooth/YouTube/Skype/FaceTime - We've never been able to feel so close to those that are far away from us.

9) Improvements in non-invasive surgery, robotic surgery & the rise of ultra-sound for emergency care. Health insurance quams aside, those in need of surgery have never had it better than they do today.

10) Autonomous cars & improved auto-safety systems - the former will eventually lessen the amount of crash-related deaths in the world, and the latter has made an enormous positive impact over the last decade.

At Tilia, our clients know that we are optimistic about the future. It's easy to be pessimistic, but if the first 16 years of this century are any indication, we as a society have amazing things ahead of us. The world has plenty of problems, but problems drive innovation, which leads to corporate profits and investment gains.