17th Edition

August 15th, 2018

# TILIA NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

## Staff News

2018 has been a busy year for Tilia so far. In March, we hired Leslie McCormick for the role of Operations Analyst. Leslie is originally from Brooklyn, NY. She has a background in in-home health care & holds a Bachelor's degree in Applied Psychology. Leslie's role with Tilia is a blend of client service & back-office administration. She's a natural and we are thrilled to have her on the team.

In July, Julie Cumalander passed the Accredited Asset Management Specialist (AAMS®) exam. The curriculum included 10 lengthy modules, ranging from Investment Strategies to Estate Planning to Deferred Compensation & other benefit plans. After completing the 10 modules, Julie successfully passed the 4 hour exam to gain the certification.

## Fear Rising for Emerging Markets

After stellar performance in 2017, Emerging Market stocks have plummeted in 2018. 10 years removed from the global financial crisis, most emerging market indexes are now hovering around early 2008 levels, having gone a full decade without advancing. Pockets of full-blown-fear have been on display in Argentina & Turkey, and most other emerging markets have experienced considerable declines in their

## Patience & Individual Stock Investing

*"The key to making money in stocks is not to get scared out of them" - Peter Lynch*

One of the most ridiculous statements you hear or read constantly in business news is "Had you bought "X" stock at the IPO, your initial $10,000 invested would be worth "Y"" - a number with a lot more zeros behind it. The great stock success stories of today - Amazon, Apple, Netflix, Home Depot, Walt Disney, have all been harrowing to own for the long haul. Even if you had the foresight to purchase them at or just after their IPO, an investor would have had to endure gut-wrenching declines along the way.

An investor holding Amazon at the tail-end of the 1999-2000 tech bubble, would have watched their shares fall an unfathomable 93%, from $85 a share to under $6! Walt Disney, seemingly sheltered from the tech collapse, went on to lose 55% of its share price in 2002. For Disney, that decline was actually mild compared to a period between late '72 & mid-'74, when the company stock declined a whopping 82%. Netflix has been a complete rollercoaster since going public. While the end result has been a 10,000%+ return, investors would have had to endure declines of 41%, 74%, 76%, 32%, 28% & 26% over the course of that time. Home Depot's shareholders have had to practice extreme patience over the years. The shares experienced a 70% decline from late '99 - early '03. In fact, Home Depot lost 49% between January of 2001 & February of 2009. Can you imagine owning Home Depot through the housing boom of the mid-2000's, losing money, but continuing to hold the investment?

It's bad for your health as an investor to overly scrutinize your individual stock holdings, and cast aside great companies that have fallen out of favor, or are suffering from the headwinds of the day. Diversification within stocks won't protect you from suffering when the market enters a panic, but it does a great job of mellowing the impact on your net worth when one or several of your holdings enters a rough patch. It's still not easy. Would we have been able to hold Home Depot through the 2000's - no! Which is exactly why those headlines are so pointless. With the exception of the occasional early employee or zealot, very few investors possess the patience required to hold a stock through a long period of underperformance. That is fine. The respective currencies vs. the US dollar.

While Turkey & Argentina have individual problems surrounding external debt, cash reserves & current account balances, none of the large constituents of the MSCI Emerging Market Index share those issues. China, South Korea, Taiwan, India & Russia make up 60% of the MSCI Emerging Markets Index fund, and are in far better financial standing. Brazil, Mexico & South Africa make up the next tier, and have low external debt, paired with sufficient reserves.

It's possible that the bad news has already been priced-in to EM stocks. Based on trailing 12-month earnings, the China, Russia & Turkey stock markets are trading at 1/3 the valuation of US stocks. Emerging markets as a whole are priced at 2/3 the valuation of our domestic market & much less based on other metrics such as price/book value or price/sales.

At Tilia, we've always had a bias towards US-domiciled stocks, especially those with a growing global footprint, or with an opportunity to take a successful state-side business model international. We do believe that EM stocks are a worthwhile diversifying element for any portfolio, and we own them for most of our clients via low-cost index funds. That diversification has been painful so far in 2018. However, if history is any guide, holding on or buying EM stocks at the current levels could provide very attractive returns in the future. After all, the last time the US market experienced a "lost decade", it was 2000-2010. The following decade has been extremely rewarding for investors that were patient enough to stick with stocks.

*Source: Research Affiliates*

lesson though, is to think about 3, 5 & 10 year outlooks. Don't lose faith in a great company if the stock declines 10% or 15% when others are moving higher.

*Source: Marketwatch, S&P Global.*

## US Stocks Grind Higher While Pessimism Returns

Following a rough Spring, US stocks have found their footing and grinded their way back to year-to-date gains. The journey has been anything but pleasant, as investors weigh strong economic data & corporate earnings vs. rising interest rates, trade disputes & for the first time in a while - inflation. If that's not enough to give investors a headache, we're heading into mid-term elections.

While this economic cycle has been a long one by historical measures, the markets have functioned quite well. Within this expansion, we've witnessed a biotech bubble ('13 - '15), an oil boom & bust ('14 - '15), a bear market in 2011, European debt crises ('10 - '13), the meteoric rise and fall of crypto-currencies ('16 - '18) & a barrage of venture-capitalist backed IPOs coming to the market. The market has done an incredible job of deflating air pockets in the system without dragging down the overall market. Just when things begin to get a little too hot, investor sentiment has soured, and valuations have retreated. While not pleasant for oil investors in 2015, or Blue Apron stockholders in 2018, it speaks volumes for the health of the US market.

As fun as 2017 was for investors, pessimism returning to the markets in 2018 is a welcomed sight. A market with a healthy mix of bulls & bears is a sustainable market that can build gains, while separating the winners from the losers. This gives us reason to stay confident & optimistic about our investments, heading into what will undoubtedly be a polarizing election season w/ no shortage of scary headlines.


*Source: Chart from Charles Schwab & Co.*