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## Why Hiring a Money Manager is Dickey

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Investment managers who have been hiding under rocks since the market bottom have just come to the realization in the past week that we are in a new bull market as the S&P 500 is recording all-time highs. Market Watch just published the findings of a monthly Bank of America survey under the title of “Fund Managers Are More Optimistic on Stocks than at Any Time Since the Pandemic Began”.

We stated in a note to our clients on April 7th that the S&P 500 had come out of the shortest bear market on record (just five weeks long) with a rebound of 20%, which defines a new bull market, after falling 34% from its prior peak. Not one market forecaster that we know of made this observation. However, the stock market, which is more prescient than the totality of investors as a leading indicator for an upward turn in the economy, was making a major statement on this day. Over the next four months, the words bull market have rarely been seen in print or heard until this past week. Meanwhile, the stock market has recovered faster from its bottom in the first 100 days than in any previous bull market. Right now, the S&P 500 is up more than 45% while the NASDAQ is up 60% from its low. It's astounding to this writer how so few could not see this upward trend in progress as the NASDAQ was going on to record numerous recovery new highs, first in early June, en route to 33 additional record new highs to date.

The SPIVA report on 10,000 active managers covering a fifteen-year period shows that only one-in-eleven managers was able to beat the S&P 500 return. This fact alone goes a long way in explaining the shortcoming of managers this year. On the heels of a steadily rising stock market, manager bearish sentiment of 47% in July has flip-flopped and now

more managers think that we are in a bull market instead of a bear market. Concurrently, this was accompanied by a 21% jump in economic expectations by managers and a swing to the view that corporate profits will improve next year. In the Bank of America survey, managers are benchmarked against an assumed portfolio of 60% stocks, 30% bonds and cash component of 10%. Only 12% of managers were over-weighted in stocks in the latest report which means that the vast majority of managers missed a rally of major proportions – just one more argument against market timing. Moreover, managers have adhered to the 60/30/10 portfolio mix for the better part of a century failing to account for an increase in life expectancy which has improved dramatically over the past few decades. Longer life spans mandate higher savings along with higher returns in order to cover future living expenses.

So, how does one find a manager who can beat the S&P 500? First, hire a manager that stays fully invested at all times given the wide body of evidence that shows managers cannot time the stock market. Second, only pursue a long strategy since hedge funds which go both long and short offer great intellectual appeal but have fallen flat on their face in recent years. In support of this assertion, the average equities fund in the Lipper Survey provided a 182% cumulative return over 10 years compared to the HFRI equities hedge fund composite return of 58%. Third, instead of selecting managers across a wide spectrum of strategies, focus on selecting managers in the investment styles with the highest returns. The Wiesenberger Fund survey serves as a compass in this regard. It shows that a \$100 investment in income or value funds grew to roughly \$6,000 from 1957 through 2004, whereas \$100 invested in growth funds grew to \$9,000 and the

same \$100 grew to \$14,000 in aggressive growth funds. Investors are too frequently focused on risk exposure, often ignoring that when you reduce risk in a portfolio, you also are reducing potential return. Very little consideration is given to opportunity costs and what could be earned over the long term in riskier assets keeping in mind that risk goes away

with time in any market basket of securities. Given the reality that 10-year Treasury bonds are currently yielding 0.58% means it that will take 122 years for money to double before taxes. This reality urges a fresh look at the question of owning bonds, in particular and asset allocation in general, in any long-term oriented portfolio.

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