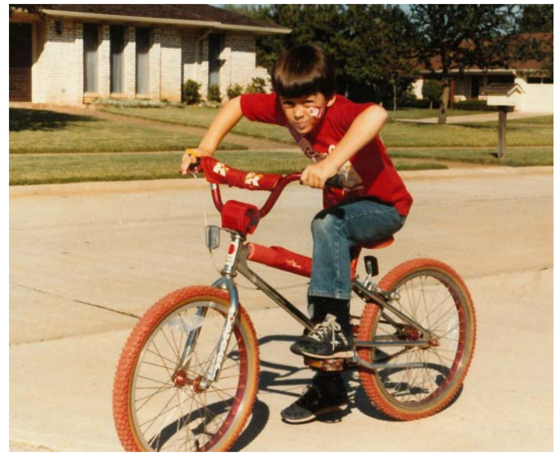
July 2014

Dear Clients and Friends:

I consider myself a child of the 80s. I know that "Greed is Good" and that "Blue Horseshoe Loves Anacott Steel". I am familiar with the look of the Wagon Queen Family Truckster and where the World's Second Largest Ball of Twine is. It is common knowledge to me that the Flex Capacitor needs 1.21 Gigawatts of electricity after the Delorean gets to 88 miles per hour and lastly I always put it on the Underhill's Tab. Having been born in 1977, the 80's and early 90's are my formative years and looking back, it sure seemed like a great decade. The 80's saw the rise of the yuppie culture and for the most part, the world and the economy was a bastion of optimism.



Sweet Bike and Ghostbusters Facepaint

"My broker is EF Hutton, and when EF Hutton talks, people listen"

Catching Trout in Hackberry, LA

My Dad was in the investment business and spent the first half of his career at EF Hutton and I loved their commercials like I am sure many of you did. Click here, here and here for some good ones. He gave me a copy of Peter Lynch's *One Up On Wall Street* when I was young and it fueled my interest in the markets. This was not abnormal. I am part of the tail end of Generation X and as children of baby boomers, we were brought up in this exciting, optimistic environment. Generation X is a unique group. We are naturally predisposed to have optimism. We, for the most part, want to be invested in the stock market. Baby Boomers have many similarities from an investing standpoint to Generation X, but Baby Boomers still maintain a bit of caution that comes from their parents warning them about the perils of the Great Depression. Where there is truly a profound difference in the generations is with Generation Y, also known as the Millenial Generation.

Millennials are defined as being born from the early 1980s to the early 2000s. They are the largest generation in American history, not the Baby Boomers as many people think. Millennials are connected; for the most part they never have known a life without a mobile phone (smart phone at that) and the internet has always been available to them. Lastly, and the premise of this letter, is they view investing totally different than the rest of us. Depending on their age, they have seen 2 massive bear markets, including a near collapse of the financial system. Many of them saw their parents lose their jobs and their retirement during the past 10 years. That has created a large amount of skepticism regarding investing, contrary to the long term data that shows the benefits of it over time.

Based on traditional methods of investing, Millennials should have a large percentage of their portfolios in stocks, since they have a long term time horizon. What they are doing is the exact opposite. A recent study showed that Non-Millennials have an average portfolio of 45% Stocks, 15% Bonds, 24% Cash and 16% Other. By any measure, not an aggressive portfolio. Millennials in the same study are vastly more conservative with 28% Stocks, 7% Bonds, 13% Other and 52% in Cash. It is as if they are frightened of the market like they would be frightened if Instagram didn't work for an hour. A UBS survey of Millennials showed that 70% of them described their risk tolerance as moderate, conservative or somewhat conservative. Only 28% of them said that "long term investing" was one of the three most important factors in achieving success, while 52% of the rest of the population did. And only 12% of Millennials would "invest immediately" if given additional money, compared to 33% of the rest of the population.

"GRANDAD, TELL ME ABOUT WHEN YOU WERE A YUPPIE."

When they are investing now, millennials either do it on their own or use online only advisors. Their allocations favor passively managed investments such as index funds and broad market ETFs. Actively managed funds like I believe in for clients, have seen net outflows for the last 5 years, while index funds are getting huge inflows. I'm not here to say that index funds aren't the way to go and I do believe they serve a place in portfolios. It is just very interesting that the belief in active managers in the new generation is not there. They aren't looking for the next Peter Lynch, Bill Miller, Paul Tudor Jones or Warren Buffett. Millennials would much rather just let a computer program choose investments for them. When did hiring real people and real money managers to actively manage your money become so out of style? I wonder if this is just a blip on the radar or a long term trend that will fundamentally change the industry.

Anyone?...Anyone?...Bueller?..Bueller? Still Awake out there? If so, let's try and bring this all home somehow. In the aforementioned Peter Lynch book from 1989 *One Up On Wall Street*, he writes…

When EF Hutton talks, everybody is supposed to be listening, but that is just the problem. Everybody ought to be trying to fall asleep. When it comes to predicting the market, the important skill here is not listening, it's snoring. The trick is not to learn to trust your gut feelings, but rather to discipline yourself to ignore them. Stand by your stocks as long as the fundamental story of the company has not changed. If not your only hope for increasing your net worth may be to adopt J. Paul Getty's surefire formula for success: "Rise early, work hard, strike oil."

We could wait for the selloff that never seems to come and miss out on a market. We could be like the millennials and constantly fear the worst to the potential detriment to long success and the ability to retire or we could attempt to trade in and out of the market in the hopes of the ever elusive perfect time to be in and perfect time to be out. We could do all of these things, but at the end of the day, this Generation X Investment Advisor says to hire real people to manage your money and remove the emotion and invest for the long term.