



Weekly Commentary

September 3, 2019

THE MARKETS

What, me worry?

About this time last year, *Time Magazine* reported on anxiety in America. Almost 40 percent of Americans reported being more anxious than they were the previous year.

The performance of stock and bond markets this summer may have pushed those numbers higher.

Last week finally brought some relief. It was the best week for major U.S. stock indices since June. The Standard & Poor's 500 Index, Dow Jones Industrial Average, and Nasdaq Composite all gained between 2 and 3 percent, reported Ben Levisohn of *Barron's*.

How can investors cope if volatility continues?

Barron's Randall Forsyth offered a recommendation, "When the stock market is this crazy, you should just invest lazy." It's important to note that Forsyth's definition of 'managing lazy' is building a diversified portfolio aimed at achieving your financial goals and leaving it alone.

Marketplace's *Andie Corban and Kai Ryssdal* offered a pretty good argument for lazy investing, too. In the audio report, Ryssdal discussed trading algorithms with Joe Gits of Social Market Analytics:

"Gits: So these [algorithms] are reading the president's tweet using natural language processing [NLP], and our current president's tweets are pretty easy to read with NLP, and they are either going long or going short.

Ryssdal: I'm going to ask you to make a value judgment here, then. Entirely apart from making money, are these algorithms – and the outsized effect that they have on movement of the markets – are they a good thing or a bad thing?

Gits: I think they're a bad thing in general, because I think the volatility causes a lot of panic by buying and selling and I think the average investor gets hurt."

Staying calm in the face of volatility isn't easy, but it's an important skill for investors to hone. If it helps, remember volatility can be computer-driven.

| Data as of 8/30/2019 | 1 WEEK | YTD | 1 YEAR | 3 YEAR | 5 YEAR | 10 YEAR |
|---|--------|-------|--------|--------|--------|---------|
| Standard & Poor's 500 (Domestic Stocks) | 2.8% | 16.7% | 0.9% | 10.4% | 7.9% | 11.1% |
| Dow Jones Global ex-U.S. | 1.0 | 4.7 | -6.7 | 3.1 | -0.8 | 2.5 |
| 10-year Treasury Note (Yield Only) | 1.5 | NA | 2.9 | 1.6 | 2.4 | 3.4 |
| Gold (per ounce) | 1.6 | 19.3 | 27.7 | 5.1 | 3.5 | 4.8 |
| Bloomberg Commodity Index | 1.2 | 0.4 | -7.9 | -2.7 | -9.3 | -4.8 |

Notes: S&P 500, DJ Global ex US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, MarketWatch, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

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IMAGINE MONEY WITH AN EXPIRATION DATE

At the turn of the 19th century, some economists thought negative interest rates made sense, according to *The Economist*.

In 1916, Silvio Gesell published *The Natural Economic Order*, a pamphlet promoting the idea of negative interest rates. A self-taught economist, Gesell lost faith in money after living through a financial crash in Argentina during the 1890s.

Planet Money reported:

“The problem, Gesell believed, was that money served two roles that often came into conflict: It was a way for people to store wealth, and it was the thing everybody needed to conduct business.

The fact that money could store wealth meant its holders had a reason to cling to it, especially in crises like the one he saw in Argentina, when opportunities to safely put that money elsewhere looked grim. It was a typical story. When people got scared, they hoarded cash and brought business to a standstill.”

Gesell suggested a solution: negative interest rates on money. If money continuously lost value, people would not hoard it. They would, in fact, have an incentive to spend it.

How do you make money lose value?

Gesell proposed a tax. Every year, money would expire and lose all value unless the money holder purchased a stamp. The stamp wouldn't be free, reported *Financial Times*. There would be a fee for the stamp.

For example, if a person held a \$100 bill and paid a \$1 fee after holding it for a year, the after-stamp value of the money would be \$99. After five years of paying fees, \$100 would be worth \$95.



Gesell believed people would, in effect, earn negative interest rates if they held onto money. As a result, they would be eager to spend, and that would keep the economy healthy, and possibly help prevent future depressions and improve prosperity.

It's a thought-provoking theory that earned Gesell a number of nicknames, some flattering and some not.

WEEKLY FOCUS – THINK ABOUT IT

“The ultimate purpose of economics, of course, is to understand and promote the enhancement of well-being.”

–Ben Bernanke, Former Chair U.S. Federal Reserve

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added. Michael A. Poland, CFA® – Financial Advisor and Portfolio Manager. Mike is a Chartered Financial Analyst with a BA from Michigan State University and an MBA from the University of St. Thomas, in St. Paul, Minnesota. Mike has been in the financial service industry since 1989. Mike's prior experience was with PaineWebber, Merrill Lynch and Rehmann Financial. Mike is a member of the CFA Society of West Michigan, and has served on the boards of The Builders Exchange of Grand Rapids and West Michigan, Mona Shores Education Foundation, and the West Michigan Symphony Orchestra. Mike lives in Norton Shores with his wife and three children.

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