CONSOLIDATED FINANCIAL MANAGEMENT

Helping Our Clients Pursue Their Goals Since 1982

Third Quarter, 2019

PLANNING PERSPECTIVES

By Kristy A. Motta, CFP®

Sell in May and Go Away?

If you have been watching the financial networks for any period of time, then you've heard the adage, "sell in May and go away". If you haven't heard it, then I apologize for opening this can of worms. The basic premise is that during the months of May through October, the stock market historically experiences lower volume, higher volatility and lower returns. We wanted to explore the history of the phrase to see if it has any actual merit. After all, something so frequently quoted must be true, right? Not so fast.

On average, stock market returns have lagged during the summer versus the rest of the year. However, underperformance does not equate to negative returns. In fact, going back to 1972, the S&P 500 has had positive returns during the summer months 67% of the time. Even more interesting is that even in these "slower" months, the returns tend to outperform yields on money market accounts. So, if you had "sold in May" and invested the proceeds in cash, you may have trailed investors who simply stayed invested.

It is also true that September has been the worst month historically for the S&P 500. There are always exceptions to trends. Let's look at the summer of 2017. Between May 1 and November 1, the S&P 500 was up 9%. This in contrast to October 2017 through April 2018, when the S&P 500 was up 3.8%. If you had sold in May in 2017, you would have put yourself behind the buy and hold investor.

Volatility can happen any time of the year. September and October do hold the distinction of being the most volatile months on average. If we look back to 2017, the S&P 500 was up 2.2%. It was also the seventh straight month of gains. On the flip side, February through April have historically been stronger months for the S&P 500. However, in February 2018, the S&P 500 was down 4%, and fell further in March 2018.

Some of the factors that we consider when examining the "sell in May and go away" philosophy is that the transaction charges may be unnecessary and can actually further erode account values. It can also be a good opportunity to invest some cash that you may have been holding on the sidelines. We encourage this for investors that have a minimum three year time horizon for funds to remain invested. This can be especially beneficial for those with an even longer time horizon.

At the end of the day, market volatility is often beyond our control and fleeting. We have found that it is more important to examine your portfolio allocation, and make sure it is still aligned with your goals and objectives. For example, the seminal 1986 study by Brinson, Hood, and Beebower was confirmed by Scott et al. (2016), a paper that showed that the asset allocation decision was responsible for 91.1% of a diversified portfolio’s return patterns over time. We can always delve further into this report on a future installment of *Planning Perspectives.* Making sure that your allocation is in line with your objectives has been shown to be the most important factor in long term investing success. That is why we frequently look at client portfolios at both the account level and the overall allocation of the portfolio. Taking into account both the micro and macro allocation is imperative.

In conclusion, most people like the idea of actively trading their account to maximize the return. However, we have shown that this can be a fool's errand. The other adage we prefer is "you can't time the market". Staying appropriately invested, looking for opportunities to add money when the market dips, and reallocating regularly is more important than selling in May and going away.

WHAT'S HAPPENING

Welcome Andrew Smith

Please join us in welcoming the next generation to the CFM Family, Andrew Smith. Andrew just graduated from Gonzaga University, cum laude, with a degree in Business Administration with an emphasis in Finance and Operations/Supply Chain Management. Andrew actually worked as an intern with us last summer, and we were thoroughly impressed by his attitude and eagerness to learn. He asked great questions, absorbed everything we threw at him, and helped us with some technology. He will be acting as our new Financial Planning Assistant, primarily supporting Kari with financial plans and updates.

Andrew grew up playing soccer, has a passion for sports, and recently took up golfing. His favorite teams are the Portland Trailblazers, Tottenham Hotspurs (I had to ask, it's an English soccer team), and, of course, Gonzaga basketball. He enjoys traveling, having studied abroad in Italy, and is hoping to plan a trip to South America soon.

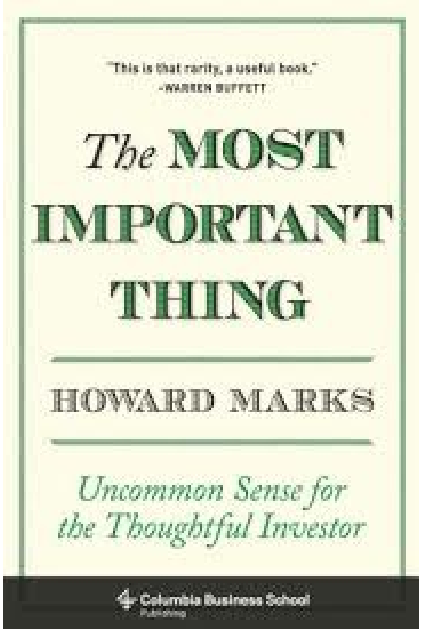
Andrew is excited to start the learning process, and working with a seasoned team in a small environment. He looks forward to meeting all of you. We hope you'll join us in welcoming him aboard.

ANALYST'S ANGLE

By Chris M. Scott, CFA

On the "Marks" Insights

Our third quarter newsletter always means that summer has officially begun. Besides the usual summer foods of hot dogs and cheeseburgers, comes the usual "Recommended Reading Lists." Warren Buffett is renowned for not only being a successful investor, but also for being a voracious reader. Reading doesn't have to mean a novel like *War and Peace*; it can be trade publications, company annual reports, whatever it is that interests you. All of this reading begins to add up, like compound interest, over time in the form of knowledge.



Since we try to focus these newsletters on investing, we wanted to introduce you to another investor whose memos and books may provide investors with plenty of knowledge, Howard Marks.

His memos outline his views on investing, the markets, and economies. One of my favorite aspects of his memos (as well as his books) is he does not bog the reader down with complex, quantitative mathematical equations that has the reader's eyes glazed over by page two, with a throbbing headache to match. His memos have been described as insightful, direct, expert and sharply pointed, according to *Business Insider*, and "their quality and insight have gained them a devoted readership among value investors."

Mr. Marks has also written several books. In March 2011, he published the book *The Most Important Thing: Uncommon Sense for the Thoughtful Investor* through Columbia Business School Press. The book covered his investment strategies and analysis of market opportunity and risk. The book was praised by Warren Buffett, who called it a rarity in its usefulness. According to Buffett, "When I see memos from Howard Marks in my mail, they're the first thing I open and read. I always learn something, and that goes double for his book." In 2013, he published an updated edition entitled The Most Important Thing Illuminated: Uncommon Sense for the Thoughtful Investor. (Source: Wikipedia)

While Mr. Marks's memos and books won't tell you WHAT stocks to buy, more importantly, his writings can help investors develop their investment philosophy and discipline. We should never stop learning, and reading is a simple way all of us can enhance our ability to gain more wisdom.

We enjoy reading Mr. Marks's material, and we hope that you will too. We have included several links below for you to learn more about Mr. Marks as well his memos.

Source: Oaktree Capital website and Wikipedia
https://www.oaktreecapital.com/people/bio/howard-marks

https://en.wikipedia.org/wiki/Howard_Marks_(investor)

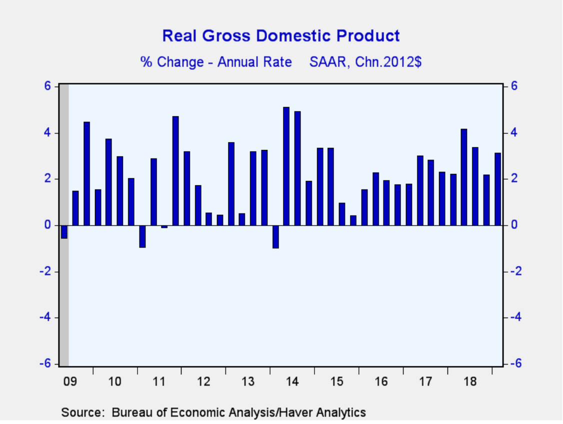
Business Insider article referenced
Walsh, Ben (December 21, 2011). "The Best Of Howard Marks: Advice From A Legendary Investor". Business Insider. Retrieved 2012-01-12.

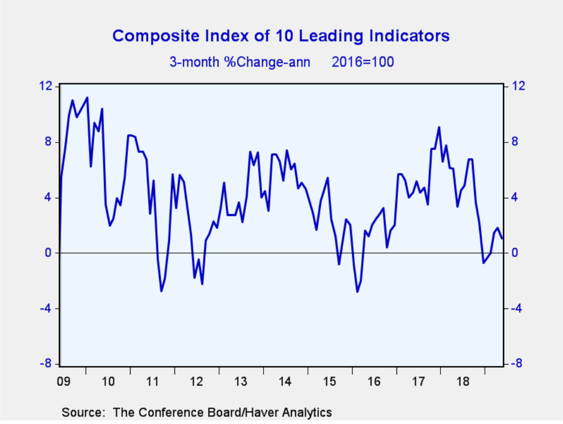
Link to Oaktree/Howard Mark's memos
https://www.oaktreecapital.com/insights/howard-marks-memos

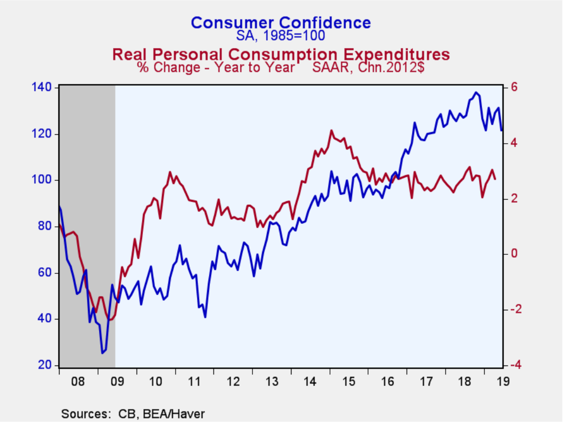
"Rule No. 1: Never lose money; Rule No. 2: Don't forget rule No. 1."

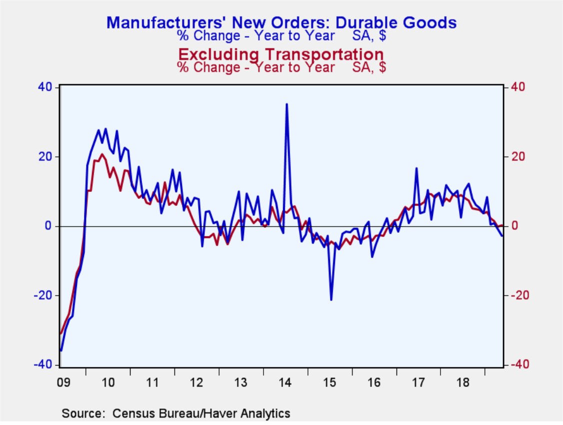
Warren Buffett

KEY ECONOMIC CHARTS
As of June, 2019









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