

# BECOME A BETTER INVESTOR'S 265 BEST INVESTMENT ARTICLES 2017

The 265 Best Investment

Articles in 2017

Summarized for YOU

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# Become a Better Investor's Top 5 Bloggers 2017

Top 5 of the Week is a summarized collection of financial investment articles that we like and think you might like too. As the Become a Better Investor's Top 5 Bloggers 2017 list showed you, there are some excellent writers out there that can help you **Become a Better Investor**.

This eBook includes summaries from the best 265 investment articles in 2017.

## *DISCLAIMER*

*This content is for information purposes only. It is not intended to be investment advice. Readers should not consider statements made by the author(s) as formal recommendations and should consult their financial advisor before making any investment decisions. While the information provided is believed to be accurate, it may include errors or inaccuracies. The author(s) cannot be held liable for any actions taken as a result of reading this article.*

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# Challenging Conventional Wisdom

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# Move Over Black Swans, the Gray Rhino Is Trampling Through

## Top 5 of the Week of November 13

Nathan Jaye, writing for CFA Institute, heads up our Top 5 this week by helping us recognize the gray rhinos of finance in an interview with Michele Wucker who coined the phrase. And Dr. Daniel Crosby of Nocturne Capital reveals his actionable tips for overcoming overconfidence bias.

The Macro Tourist Kevin Muir observes the rising scorn of Value Investing and asks us to place our bets, please. Jeff Desjardins, the founder of the Visualist Capitalist, shares a striking graphic visualization of the world's debt. And The Reformed Broker Joshua Brown warns us of the dangers of plastic bears...

## Move Over Black Swans, the Gray Rhino Is Trampling Through

- The phrase gray rhino was invented to aptly—and metaphorically—describe the dangerous horned beast problems that we all encounter—the ones that head straight for you (like rhinos)
- You have to deal with the fight or flight choice of the problem you are facing—you have to make a decision
- Doing a regular "gray rhino reality check" to be on top of any financial issues is key to taking charge of your problems—instead of avoiding them

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## Eating Humble Pie

- If you have come to the realization that more humility is required in your investing approach, build a "steel man" against which to sharpen your tools of rationale and decision-making
- Learn to love the questions you are asking; this will improve your process and inevitably help you find the answers you're looking for too
- Furthermore, to overcome your confidence bias always attempt to change your perspective to an "outside view" and rely on external data and alternative experiences to combat ego

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## The Scorn of Value Investing

- The stock market needs a "Value Investor's Deadpool," for those who still hold the firm belief that trading in cheap companies is the way forward
- Because the current decline of value stocks against growth stocks is similar to the value investing erosion of the DotCom bubble of 2000—meaning value funds, and value investors, are having a tough time at the moment
- This vastly increases the chances of a big name fund tapping out "at the bottom" soon—we just need to lay our bets down on which...

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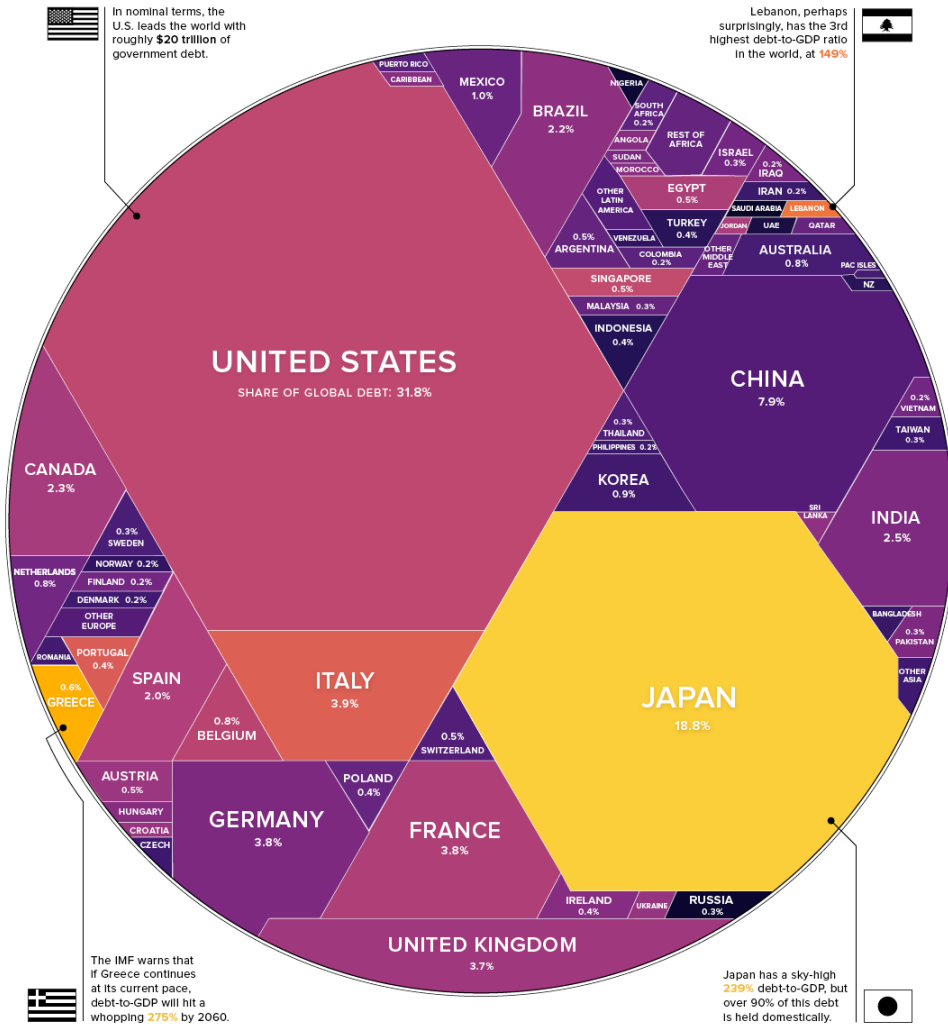
# Crazy Numbers



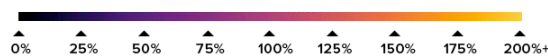
**HOW MUCH GOVERNMENT DEBT EXISTS?**

According to most recent estimates by the IMF, governments have accumulated **\$63 trillion** in total - and the U.S. makes up almost a third of that amount.

## Percentage of World Debt BY COUNTRY



### Debt as a Percentage of GDP



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visualcapitalist.com

Courtesy of: Visual Capitalist

- The collective amount of world debt, that all national governments are indebted by, adds up to a whopping \$63 trillion
- Ideally, governments would only borrow for short-term projects or deficits, but it has become the norm for many countries to run constant deficits—which is pretty unhealthy for the global economy
- The U.S. debt alone has crept up to around \$20 trillion from \$6.9 trillion in federal debt in 2001, and it accounts for 32% of the global debt all by itself

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## **Beware Plastic Bears**

- There are more "plastic bears" in the financial world than ever before; these are noted investors/fund houses who speak of bubble concerns while holding "large amounts of the asset class they claim to hate"
- No-one thinks anything of it if their dire predictions do not play out, but they'll invariably be touted as heroes if their forecasts prove true
- While innocent investors listen to these plastic bears and make trading moves based on their 'expert' predictions, seriously damaging their own interests

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# Same, Same But Different

## Top 5 of the Week of November 6

Cullen Roche, the writer of Pragmatic Capitalism, kicks off our Top 5 this week with his perspective on the future of active management. David Merkel discusses the benefits of taking a simple approach to investing on The Aleph Blog. And Phil Huber, CIO for Huber Financial Advisors and author of bps and pieces, compares “the same side of two coins.”

Wealthfront's Andy Rachleff examines the intangible nature of risk. And The Reformed Broker Joshua Brown helps us build up our tolerance to the growing bear market predictions...

## An Active Future for All?

- The controversial idea that passive investing is a myth has become more accepted as more investors realize that "passive" indexing mirrors many different fund types
- This means the future will still include the deeply-entrenched active managers that the market knows of old—though they may dwindle in popularity for their sale of false hope
- Furthermore, active strategies will become more systemized, fees will come down, and the rising popularity of simple, liquid, tax-efficient ETFs will continue

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## Keep It Simple

- Taking a simple approach to investing can be incredibly beneficial, do this by choosing investments that you can understand—and explain—on a fundamental

- level
- Avoiding complex strategies will help you stay more rational in times of market crisis and evade negative, unexpected surprises
- Sleep better at night knowing that by maintaining simple asset allocation you don't need to make radical changes and can trade less—reducing your risk and anxiety level
- Plus your taxes are easier to manage too!

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## Same, Same But Different

- **“Simple Investing/Easy Investing”** While the first is possible; the second is nonexistent
- **“Great company/Great stock”** The first does not make the second, and the second doesn't necessarily mean the first
- **“Timing the market/Time in the market”** The second will empower your compounding interest, while the first will prevent it
- **“Quoting Warren Buffett/Acting like Warren Buffett”** Many investors do the first, but few achieve the second

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## Looks Can Be Deceiving

- The “efficient frontier” is a set of portfolios optimized to offer the highest expected return for a certain level of risk or the lowest possible risk for a set expected return
- Once the efficient frontier is determined, the idea is that you can match your level of risk to the best portfolio for you
- But the efficient frontier line increases in volatility as it moves up and right across a graph, making it less attractive than it may seem at first to choose the highest-performing portfolio

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## What Will Be, Will Be

- While everyone is attempting to predict the end of the bull market, there is

- actually no reliable formula, strategy or machine that can possibly calculate it
- True, there are people who may accidentally predict the turn just right—but this is pure luck, and their fame never lasts long
- And they will continue to try and achieve the impossible again and again for the high of it—steer clear of these doomsday criers and stay away from the media hype by training yourself to ignore the noise

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# The Gray Area of Stock Market Exposure

## Top 5 of the Week of October 30

Daniel Egan opens up our Top 5 this week with a look at risk, return, and time on his self-named blog. Writer of the Pragmatic Capitalism blog, Cullen Roche, reveals how we don't have to be black or white about our stock market exposure. And Zat Rana, writing on Medium, uncovers the kind of high-level thinking Warren Buffett might use for decision-making.

A Teachable Moment's Anthony Isola teaches us how to avoid financial predators. And Robin Powell, The Evidence Investor, makes a plea for active managers to be more inactive...

## The Problem with Risk

- Returns are something investors understand, but risk is much harder; it involves comprehending the likelihood of multiple possible outcomes
- Our perception tends to be that we should be chasing the highest possible returns portfolio regardless of the risk involved
- High-risk investments only prevail over low-risk ones over long periods of time though—short-term, this approach is just going to improve your odds of losing money

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## The Gray Area of Stock Market Exposure

- Investing legend Jack Bogle fully supports reducing your stock market exposure

- to diminish your vulnerability to high level of risk
- The alternative black or white view of needing to be either "all in" or "all out" is a gambling approach to investing—especially when the baseline probability of gambling is "negative total return"
- Being in the market successfully, while not being overexposed to risk, is all about asset allocation and having a shrewd knowledge of your risk profile and behavior

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## High-Level Decision-Making

- We make decisions on a daily basis in the face of a variety of options and conflicting information—making it hard to remain rational and unbiased
- It's also tough to overcome hardwired instincts to go with our short-term impulses; we may have evolved to make it needless to act like this, but it still requires conscious effort
- To conquer this, use the 10/10/10 method to consider how you will feel about decisions in 10 minutes, 10 months, and 10 years—a high-level thinking approach to problem-solving

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## "Investor Self-Defense"

- One of the many difficulties new investors encounter is being preyed on by financial predators—this is especially true among our older generation
- To improve the self-defense of your friends and family, encourage them to do their homework on their money managers and ensure they are a fiduciary
- Charge them to question how much they pay for investment advice and money management, and to work out exactly what the fees they are paying go towards—improved awareness = improved investor self-defense

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## Active Managers: Hold Your Fire!

- Evidence suggests that the fewer trades carried out by a fund, the better the returns—so, active managers would be better being more inactive

- This is not even necessarily due to their level of skills at stock picking or market timing, but due to the costs involved with trading that eat away at returns
- The biggest driver fuelling excessive trading by active managers is the need to be seen to be earning their money—far better, if they stick to their picks and avoid trading in and out of those stocks

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# Don't Believe Every Market Narrative

## Top 5 of the Week of October 23

In our Top 5 this week, Michael Harris at Price Action Lab argues against the “market is technically overbought” narrative. Yet Another Value Blog's writer Andrew Walker shares his learned 'advice' from 22 months of running a fund. And Collaborative Fund partner Morgan Housel warns us about getting trapped on the hedonic treadmill.

Abnormal Returns Tadas Viskanta weighs up intellect over critical thinking for investing success. And Ben Carlson from A Wealth of Common Sense explains the difference between good and effective advice...

## Don't Believe Every Market Narrative

- Popular indicators suggest that recently the S&P 500 has been overbought—this is when there is a high demand for a certain asset (in this case the S&P 500)
- Untested technical analysis claims by market professionals push this “market is technically overbought” narrative forward for their own benefit
- The narrative fails though when considering stock market indexes because it doesn't take into account other factors, just simply serves to line professionals' pockets "at the expense of naïve traders"

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## Oh, the Irony!

- "Bet the jockey, not the horse" It's not the company, but the genius behind the

- company that you're ultimately buying into
- **"If a write up is long, you know it's good"** If a company analysis is extra long, you know the person writing is an expert—don't read the whole thing, just buy the stock
- **"M&A are always transformative, and synergies are always easily achievable"** Companies never experience problems with mergers and acquisitions, and, what's more, they always create shareholder value

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## The Hedonic Treadmill

- The act of building wealth is cursed by the hedonic treadmill; the more you strive to gain more money, the more it moves your financial goals ever out of reach
- We work hard and worry about getting rich, at the same time as worrying about losing what we've worked hard to get
- The counter solution to all this anxiety is to actively seek contentment with what you have, but this will involve stopping the cycle of saving, striving, and sacrificing—which is why we're all still on the treadmill

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## Investing Skills to Cultivate

- You need more than intelligence to be a successful investor—instead, humility and critical thinking skills, rather than intellect, will help you deal with market volatility
- It is far better to have a lower IQ and be calm and rational about your decisions than have a high IQ and be overconfident about your abilities
- The good thing is, if you're not naturally humble and inclined to deal with your cognitive bias with critical thinking, you can actively cultivate these skills for the future

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## Weighing Up Good Advice vs. Effective Advice

- For many people, good financial advice is not enough, there is always plenty

- around, but it does not necessarily inspire action
- Even when the risks are high, being informed and motivated does not lend itself to active change in behavior
- Therefore, financial advisors need to redefine the advice-giving business and go beyond "good" to make all the advice they dispense "effective" instead

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# Have the Right Eggs in Your Basket

## Top 5 of the Week of October 16

Alex Barrow, co-founder of Macro Ops, heads up our Top 5 this week with a view on the 'Holy Grail of Investing'. The writer of the Value and Opportunity blog explains why value investors should care about venture capital and startups. And Ben Carlson for Bloomberg discusses market myths which can hurt investors.

Factor Research's Nicolas Rabener presents the results of the 2017 "Factor Olympics." And Joe Mcgrath, writing for the Institutional Investor, introduces us to the new activist investor players...

## Have the Right Eggs in Your Basket

- There is evidence to suggest that a portfolio of 1,000 stocks with 60% correlation would provide no better diversification than just 5
- The road to creating your fortune instead lies in finding 15 - 20 decent uncorrelated return streams—this approach mitigates your return per unit of risk and enables you to achieve a market-neutral position
- This market-neutral portfolio provides diversification for asset classes to perform well at different stages and collect "beta in a smart risk-adjusted way"

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## Disrupting Value Investing

- Young companies are rarely considered by value investors because they have no operating history, assets or earnings track record and are high in risk factors

- But value investors should be keeping an eye on how startups can disrupt the bigger players in their portfolio—as major companies have had the rug pulled from beneath them by a unicorn startup before now
- Be a savvy value investor and keep a watchful eye on venture investing and new technologies—it may also help uncover future value traps

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## Market Rules of Thumb Which Don't Add Up

- **Low trading volume rallies mark problems for stocks:** The amount of stocks being turned over in the market has nothing to do with the market's direction
- **Everyone has a stockpile of cash waiting to be invested:** Trades are a two-way agreement—someone buys and someone sells—so for cash that 'floods in', cash will also flood out
- **When interest rates rise, bonds lose money:** These two are often inversely related but this ignores the times when total returns were positive when interest rates were rising

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## Factor Performance in 2017

- Overall, factor investing has hit an all-time high in 2017 with low volatility in performance—reflected by low market volatility too
- Quality and Growth are almost identical in their strength and performance demonstrated by the Tech sector which represents most of the portfolios in both
- And interestingly, in comparison to 2016, Value and Size are this year's global factor losers—demonstrating a role reversal as last year's winners become this year's losers and vice versa

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## Passive Players Are Coming Out of the Shadows

- History shows a number of "activist investors" who have rallied against major companies in shareholder revolts in the past
- Most recently though, this position has been filled by Blackrock and Vanguard in

- a rally for yearly climate risk reporting at ExxonMobil
- It seems these large players are no longer content with playing a passive role on policies which seek to minimize climate damage and will use the carrot or the stick to make changes

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# What Dreams Are Made Of

## Top 5 of the Week of October 9

We kick off this week's Top 5 with a look at cryptocurrency by Aswath Damodaran on his Musings on Markets blog. The Reformed Broker Joshua Brown explains why investors will always need advice. And Bob Seawright, writing for his own blog, talks about the trouble with 'presentism'.

The staff at Vintage Value Investing share some of Warren Buffett's most inspirational quotes. And Todd Wenning of Clear Eyes Investing examines the challenging scenarios quality-value investors face...

## Which Cryptocurrency Coin Will Win the Toss?

- Though the technology is still young and experimental, the popularity of cryptocurrencies has caused a surge on the market recently
- After just ten years, Bitcoin on its own is valued at over \$40 billion and has seen a vast increase in growth in the last two years; prompting the start of many cryptocurrency competitors
- The problem is, while prominent, none of them have (yet) succeeded in their intention as currencies which makes it hard to find a market winner in the current list

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## What Dreams Are Made Of

- Investors just starting out may dream of portfolios with \$1, \$5 or \$10 million, thinking that will make them satisfied
- But the truth is the older you get, you probably dream of peace in the market,

- sadly, as any rational investor knows—even given today's current "safe circumstances"— there's no such thing
- Which is why we will always need advisors—with their understanding of behavioral investing, they are there to stand firm and help steer us through those times when the market turns against us

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## Living in the Now

- All too many of us live in the now; not learning from the past and with no plan for the future—a trait many investors may recognize in themselves
- As a very large percentage of us struggle with delayed gratification, this 'presentism' poses a big problem for our ability to plan for retirement
- Acknowledging this lack of self-control is the first step to beginning to achieve it —though it would be helpful if employers got onboard with better company investment policies for employees too

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## Words from Investing Legend Warren Buffett

- **"Risk comes from not knowing what you're doing"** — Only by thoroughly educating yourself about investing can you begin to be a success at it
- **"A public-opinion poll is no substitute for thought"** — Media and popular trends should have a minor influence on your investing decisions, back up your choices with your own strategy and evidence
- **"The only time to buy these is on a day with no 'y' in it"** — There are some stocks you should just never invest in, so, beware of ones that look too good to be true

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## Finding the Right Quality-Value Mix

- An ongoing challenge that quality-value investors face is that rarely do companies match the right mix of management, moat, and price factors
- The most common scenarios that arise out of this challenge is to "avoid turnaround traps," "beware quality traps," and assess "quality at any price?"

- When it comes to one or more of these being prevalent, take the time to weigh out the pros and cons carefully to best analyze the company

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# Investing: Survival of the Rational

## Top 5 of the Week of October 2

The Reformed Broker Joshua Brown heads up our Top 5 this week with a view on Warren Buffett's "Dow 1 million call." The Intelligent Investor Jason Zweig explains why private equity fund managers should be worried. And Ben Carlson, writing for Bloomberg, examines the pros and cons of investing strategies in a "low-return world."

Sean Stannard-Stockton, the author of Intrinsic Investing, discusses where today's market is headed. And A Teachable Moment's Anthony Isola urges us to watch our behavior...

## Dow 1 Million: A Possibility? Or Plain Crazy?

- Warren Buffet made a prediction recently at the Forbes 100th Year Anniversary party in New York that the Dow would hit over 1 million in 100 years
- To achieve this, the Dow would have to "skyrocket 4,500%" from its current value—which is already sitting at a record high
- So, is this reliable optimism or crazy talk? Well, it's possible "if you do the math," but the Dow of tomorrow will be a different beast to what it is today—and require less growth than we've seen in the last century

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## The Dawn of a Price Competition

- Recently, there has been a trend of ETF funds created that mimic the returns of

- private equity funds which, until now, only the very wealthy could afford to invest in
- The idea is designed to enable anyone to be able to invest in these ETFs and gain the same outperformance without laying out the expensive fees
- While this performance won't last permanently, if you can achieve the same even for a short time then "fee kings" better watch out; a price competition is beginning on their doorsteps

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## **“How to Invest in a Low-Return World”**

- Don't be fooled into thinking you are indecisive by investing the way you always have and just accepting the low-returns of today's market—“doing nothing is a decision”
- While reducing your risk by moving to cash in advance of a correction increases your options, you have to time the movement right twice: when you get out and go back in
- Looking for special market niches and expert investment managers can provide streams of outperformance, but should be done in small measures to control portfolio risk

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## **The End of the Market is Nigh**

- Over the past seven years, stock market experts have been declaring that the market is drastically overvalued and bound for a crash
- These announcements have found an attentive audience in those investors who went through the 2008 market crash and who expect the worst
- While we may be headed for a 10 or 20% decline (which happens quite regularly), bubbles are much rarer, and the current high is due to low-growth companies reaching record valuations not speculative stocks driving it up

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## **Investing: Survival of the Rational**

- Evolution has altered the survival traits of our historical ancestors into

- destructive behaviors of paranoia and delusion
- These qualities which kept our ancestors alive in the past have a powerful impact in distorting our view of reality today—which can be especially dangerous where our investments are concerned
- As an investor, therefore, it's important to recognize when we're under the influence of our delusions and actively change our behavior or pay someone to manage your investments for you

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# It's Not What They Say, But What They Do

## Top 5 of the Week of September 25

In our Top 5 this week, writing for the CFA Institute, Nicolas Rabener examines the "value in the value factor." On Alpha Architect, Dr. Jack Vogel discusses machine learning. And A Wealth of Common Sense's Ben Carlson explains why we should be worried about the market today.

The Irrelevant Investor Michael Batnick expands on a quote by Mark Twain, "It is strange the way the ignorant and inexperienced so often and so undeservedly succeed when the informed and the experienced fail." And partner at the Collaborative Fund, Morgan Housel remarks on what the future still has in store...

## The Most Attractive Factors

- May saw the interest in factor investing hit an all-time high, motivating fund management companies and investment banks to launch many smart beta and risk premia products
- Since factors experience similar multi-year drawdowns as equity markets, it's important to determine which factors work best in certain market conditions when selecting among these products
- When looking at stock prices, valuations can be outrageous, but, if you have a medium to long-term investment horizon, value factors are your friend

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## The Future of Machine Learning

- Many investors are curious about machine learning—how computers can come up with algorithms to find the best trading signals from the available data
- When you look at all the data though, trading on all the signals in the fundamental-signal universe produces next to no anomalies
- Machine-learning combines well-known anomalies, but could also increase transaction costs and the odds of a data-mined result (even though the algorithms will attempt to avoid this)

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## It's Not What They Say, But What They *Do*

- When legendary investors like Seth Klarman are concerned about the market, other investors sit up and take notice
- Except even those investors at the top of their game don't know what's going to happen anymore than the rest of us
- The key is to watch what these investors are doing, rather than what they say they are doing—what they tell the public can be very different to how they're actually managing their assets

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## Damn Beginner's Luck

- The stock market is a fickle beast; new, inexperienced investors can just wander in with no skill or knowledge and make a lot of money
- Which can be incredibly frustrating for professional investors who know, for example, that concentrating 100% of your assets in one stock is a terrible idea
- And as tempting as it is to chase high-performing stocks, be rational instead and exert the self-control that you know is important for long-term success

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## The Future: Are You an Optimist or a Pessimist?

- John Stuart Mill said that “I have observed that not the man who hopes when

- others despair, but the man who despairs when others hope, is admired by a large class of persons as a sage”
- It is easy to be pessimistic about what the future brings for the age of invention—and the stock market—as being pessimistic "sounds smarter"
- But while optimism sounds more implausible, there are a whole load of people who have wrongly predicted in the past that there is nothing new left to be invented

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# The Peril of the Stockpicker's Trap

## Top 5 of the Week of September 18

The team at Sumzero Headlines head up our Top 5 this week by making us aware of the stockpicker's most dangerous trap. The Intelligent Investor Jason Zweig weighs in on how we should be using financial advisors. And Lawrence Hamtil, writer of Fortune Financial's blog, explains the merit of lasting economic moats.

Managing Director of Factor Research, Nicolas Rabener compares combination vs. double-sorting portfolio construction. And the author of Silver Value Partners blog, Gary Mishuris explains what the best investors do for success...

## The Peril of the Stockpicker's Trap: Confirmation Bias

- Emotions and investing are not supposed to mix, but if we carry out our research with due diligence and take emotional bias out, we should be fine, right?
- Except that once you conquer the urge to invest by gut instinct as a rookie trader, you graduate to a whole new set of behavioral issues
- Your emotions may no longer weigh in, but you must now deal with your cognitive biases—of which confirmation bias (the ability to favor information which affirms our beliefs) is the most dangerous

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## Your Financial Responsibility

- A financial advisor's (FA) responsibility is to provide investment advice that best serves their clients' interests, not their own; this is their fiduciary duty
- But not all of them will tell you when they act outside of these interests, and until regulations are truly controlled to best implement this ethical criteria, it is up to you to conduct your own research
- Undertake your own due diligence on the FA of your choosing by asking the right questions, and, hopefully, getting the right answers

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## Economic Moats: Your Company's Best Line of Defense

- An idea made popular by Warren Buffett; economic moats are often undervalued as mere competitive advantage—in fact, they help ensure a company's profitability
- The key to moat investing lies not just in creating and benefiting from one but in increasing its sustainability when it is under threat from new tech
- Sectors that could merit from a lasting moat include railroads, tobacco, and airports—not to create out-sized returns for the industries but to reduce the odds of disappointing their investors

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## Combination or Double-Sorting Portfolio Construction?

- Should factor investors use a combination of factors (e.g. 50% to Value/50% to Momentum) or use 'double-sorting' (e.g. rating stocks on Value and Momentum to invest in ones with the highest combined score)?
- For Value and Quality portfolios (cheap stocks with Quality characteristics), double-sorting works better than for Value stocks that rate high with Momentum factors
- The combination portfolio creates a higher risk-return ratio next to double-sorting for both stock mixes, but provides lower returns

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## Above the Rest

- **Stay calm:** An innate characteristic perhaps, it is not in everyone's nature to remain rational during the worst situations
- **Study many investing approaches:** Being able to understand many investing disciplines is a skill worth learning
- **Concentrate on strategy, not results:** By focusing your efforts on "process over outcome" you will continually improve your strategy for long-term results
- **Mitigate your own behavior:** Know that you are your own worst enemy and act accordingly

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# R.I.P Value Investing?

## Top 5 of the Week of September 11

In our Top 5 this week, Newfound Research's Corey Hoffstein examines alternative investments for portfolios. Writing for Alpha Architect, Larry Swedroe explores short-term momentum and long-term reversals in global equity markets. And The Irrelevant Investor Michael Batnick asks if Warren Buffett has killed value investing?

From Of Dollars and Data, Nick Maggiulli uncovers the data timeline behind rapid decreases in stock prices and their slow recovery. And the writer of Behavioural Investment, Joe Wiggins, explains why mutual fund investors behave differently to other investors...

## Go Weird and Wonderful

- The present market perspective on bonds, stocks, and portfolios is pretty bleak at the moment, rocking at "all-time historical low levels"
- Investors hoping to achieve long-term success may have to consider outside of the box thinking when it comes to portfolio construction
- Consider a portfolio made up of more "unique" asset classes including emerging market debts, levered loans, and U.S. small caps in a 60/40 ratio

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## Momentum and Reversals Research

- Much research has been undertaken to examine the correlation between price patterns in momentum returns and long-term reversals
- There is evidence to support the fact that in global markets, outside of Europe,

- three-year losers become winners and three-year winners tend to be losers
- There are also long-term reversal findings that suggest this is not the result of investor overreaction to valuation changes

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## R.I.P Value Investing?

- Warren Buffett has made a killing in the stock market, and his name is now interchangeable with investing
- Up until 1984, when Buffett shared his findings with the world on how to value invest, his partnership alone reaped the benefits of his skills
- But since he has enlightened so many other investors to the strategy, the same Fama French U.S. Large Value Index—which was crushing it from 1926 to 1984, has since failed to outperform the S&P 500
- Sadly, too much of a good thing cannot work for everyone

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## How Stocks Fall Quickly, But Recover Slowly

- Experienced investors are all used to how stocks decline rapidly in price but will take their sweet time to recuperate
- Historical data—from times where the U.S. stock market was at an all time high before heading into a 20% drawdown—shows the average time it takes is 7 months for the market to decline, and a whopping 6 years to recover
- Fun fact, but it's worth remembering of course that historical data is no measure of future performance—doh!

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## Mutual Fund Investors Do It Differently

- A notable find from behavioral finance studies is the disposition effect; which is when investors sell winners and keep losing stocks
- But mutual fund investors do the opposite; selling losers that underperform as they 'find' patterns between the fund investment process and underperformance
- This desire to identify a narrative link—driving fund investors to sell losers in a

- reverse of the disposition effect—is not wrong, but it's worth being aware of this "distinct behavioural challenge"

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# No, The World Isn't Flatter

## Top 5 of the Week of September 4

Todd Wenning opens up our Top 5 this week with a look at "economic moats." Barry Ritholtz, Chairman & CIO of Ritholtz Wealth Management, shares what he learned at Camp Kotok—otherwise known as the Shadow Federal Reserve Committee. And A Wealth of Common Sense's Ben Carlson helps us manage the sequence of return risk, i.e. the risk involved with the timing of withdrawals on your retirement returns.

Writing for CFA Institute, Managing Partner & Founder of Fiduciary Wealth Partners Preston McSwain explains how "ignoring fees doesn't beat the market." And ETF.com's Larry Swedroe reveals that the world is not flat...

## Figure out the Competitive Advantage

- Prosperous companies—those who win year after year—no doubt accord their success to a popular product and high-profit margins
- Another explanation though is that these companies have a sound "economic moat" (a firm's competitive advantages) in place—be it in the form of intangible assets, network effects, low-cost production or switching costs
- When competing against a successful company, ask yourself, "Aside from the money, what's the biggest competitive advantage preventing me from beating them?"

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## Takeaways from Camp Kotok

- You're not the only one that doesn't know what is going on in this market; no

- one else does either
- While stock pickers are struggling at the moment, spare a thought for bond managers too: with no inflation, raising Fed rates or any sign of upward movement in Treasuries, their jobs seem even harder
- The power of pure luck should not be underestimated; for every investing and strategy you test and examine, recognize the truly serendipitous moments too

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## Going Beyond Our Control

- While we may wish we did, investors have no control over the sequence of return risk—but there are ways to manage it at least
- Set yourself realistic—and conservative—return expectations and be flexible in your response to how the bull or bear market treat you
- When stocks go down, don't become a forced seller else your sequence of return risk becomes twice as painful
- To determine your risk profile, don't forget to appreciate where you are in your investing cycle

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## Marketing Games

- Firms can make highly misleading claims about their performance, all in the name of marketing
- There's nothing necessarily illegal about this behavior, but no investor can receive the expected returns these firms advertise without paying through the nose
- Be aware of this behavior, it would be nice to believe that the industry can and will do better, but don't rely on this ever happening—instead, be sure you read all the advertising small-print

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## No, The World Isn't Flatter

- Rumour is flying that with rising risky asset correlations the world is getting flatter and international diversification benefits are a thing of the past

- And while market integration may have reduced the perks of global equity diversification, they haven't gone for good—so it's still a wise move
- Begin with global market capitalization and allocate accordingly, roughly "one-half U.S. stocks, three-eighths non-U.S. developed markets, and one-eighth emerging markets"

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# "Markets Don't Crash from All-Time Highs"

## Top 5 of the Week of August 28

Roger Nusbaum of Alpha Baskets, opens up our Top 5 this week by helping us get our portfolios sorted. The Irrelevant Investor Michael Batnick reviews the market's record high. And writing for Bloomberg, Chairman & CIO of Ritholtz Wealth Management Barry Ritholtz explains just what stock market we're in.

From Pension Partners, Charlie Bilello discusses markets crashing from all-time highs. And Larry Swedroe writing for Alpha Architects looks at the factors behind market trends...

## Getting Your S#\$% in Order

- Don't make investing decisions based on social media—or any media—there are times when you should sell, but don't do it just because a headline tells you to
- There's never a perfect time to start, don't put off investing because you're waiting for the market to correct
- Live within your means and have a solid saving rate because even the most perfect portfolio won't be enough

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## Just Where Is the Market Headed?

- The ongoing record for today's S&P 500's all-time high has endured all the way back since June 2016
- Don't be deceived by rose-tinted glasses about the current state of affairs

- though; no investor should expect to outperform the market whatever asset they are investing in
- No matter where the market is headed, the only way to survive it is to control and rein in your own behavior

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## Spotting the Right Market

- If a bear market is a 20% drop in securities across multiple broad market indexes, a bull market is the opposite: a rally in prices by 20%
- But the percentage, definition and, ultimately, the valuation of the market is all meaningless to investors
- Knowing these factors will not help you manage risk, time your trades, or inform you on "when and how to deploy capital"
- Instead, pay attention to the market's motivations rather than its valuation

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## "Markets Don't Crash from All-Time Highs"

- This popular saying seems to be making a comeback; it implies that it's safer to buy now rather than on other days when it's not at a high with low volatility
- The reason for this confidence is that historical evidence shows that it takes time for the market to move from periods of lower volatility to periods of higher volatility
- But this 'time' isn't necessarily very long, two of the worst crashes (1929 and 1987) happened just two months after an all-time high

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## Should We Be On Trend or Not?

- Investors have been trend-following since the dawn of investing, so trends can be found in all stock, bond, commodity, and currency markets
- The factors for market trending will never change so investors will simply continue with their behavioral biases over prices
- As such, allocating some assets in your portfolio to follow trends is fair, but holding them in tax-advantaged accounts would be wiser, as the high turnover

- of trends makes them tax inefficient

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# What's in a Name?

## Top 5 of the Week of August 21

Aleph Blog's David Merkel heads up our Top 5 this week asking why the stock market is so high. Joshua Brown, The Reformed Broker, answers the question, "Will stick to buy and hold if the market tumbles?" And Victor Haghani and James White from Elm Funds ask if we should be waiting for the next market correction before acting.

Will Ortel, writing for CFA Institute, reveals how to name your fund. And Peter Lazaroff, guest posting on Market Watch, redirects our focus completely away from active and passive investing...

## Today's High-Flying Stock Market

- There are multiple theories around about the reason why the stock market is so high at the moment
- While it's difficult to foresee if it will stay high or get even higher in the future, there is no historic precedent for stock markets remaining in top valuations for more than three years
- Given the uncertain nature of the stock market future, it would be wise to reflect on your current asset allocation, and perhaps reevaluate your risk tolerance before it's too late

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## A Resounding "Nope"

- According to Mark Hulbert, sentiment and cycle expert, history dictates that when markets take a turn for the worse, "newly converted passive investing

- diehards" will knuckle under
- And the predicted catalyst for these investors frightening easily? When the S&P 500 corrects by 10 percent, recovers, and readjusts without a new high
- Because investors who have reformed recently to the passive buy and hold strategy will not take kindly to watching their dollars being mistreated by the market

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## Waiting for the Inevitable

- Investors are watching today's high market with concern, and many are confidently waiting for the inevitable market correction around the corner before putting cash to work
- While the odds are high that one may happen, the cost of waiting for a correction can outweigh the expected benefit to investing after its timely occurrence
- History also confirms this; evidence shows that higher market valuations are not consistent with negative expected returns

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## What's in a Name?

- Success in business is rarely attributed to luck, but could language be the key instead? More specifically the name of your fund
- Stocks are 5-15% more liquid if their ticker symbols are found sooner in the alphabet, and being notable and easy to say is obviously a must also
- Whether you use your own initials—or someone else's—or you name it after your strategy, while the right name can help, it's your fund's performance that truly matters

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## Move Your Investing Focus

- Investors can get so wrapped up in defining themselves as active or passive that they fail to see the whole debate is flawed
- Instead, turn your focus to comparing low-cost with high-cost, low-turnover

- against high-turnover, and rules-based versus a forecast-based approach
- It is only by finding yourself on the favorable side of these comparisons that you put yourself in a position for better investment results

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# Beating the Market: As Easy as Shooting the Moon

## Top 5 of the Week of August 14

In our Top 5 this week, The Irrelevant Investor Michael Batnick reveals why financial advisors should probably be worried. Lawrence Hamtil, writing for Fortune Financial Advisors, suggests that our perspective on today's bull market is all wrong. And Joshua Brown, The Reformed Broker, responds personally to [Howard Marks' memo](#).

Writing for CFA Institute, Wesley Gray reveals every investor's mission impossible. And author of Pragmatic Capitalism, Cullen Roche, explains why indexing isn't quitting...

## Are the Robots Taking Over?

- Active management, specifically its fees and underperforming capabilities, has a bad reputation
- But this negative rep is never actually assigned to the "lousy financial advisors" who move money through these funds
- There are 249,400 financial advisors in the United States, odds are not necessarily in your favor of finding a good one—it's looking better all the time for robo-advisors though

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## A Misunderstood Bull Market

- Born after the biggest crisis in decades and now the longest running bull market

- on record, today's current cycle is "perhaps the most misunderstood" in history
- Remove any bias about the bull market and it's actually not that noteworthy, it's the negativity surrounding it that's driving investors' mistrust
- As with market cycles in the past, it will undoubtedly end at some point to great hurrah from some investors who will have no better idea about the next bear market than they had about this one

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## A Volley Back at Howard Marks

- **People are investing speculatively:** This is by no means new information, look back at historic data and you will always find examples of them doing this
- **Now is a time to be cautious:** But when isn't there a time to be cautious? Everyone should invest as though "the best is yet to come but the worst could be right around the corner"
- **To conclude:** Caution should influence every investor's mindset all the time, whatever is happening on the world stage

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## Beating the Market: As Easy as Shooting the Moon

- Even though investors like Warren Buffett make it look easy, beating the market forever is nigh on impossible
- But hang on, Buffett is not the only one to have outperformed; research is dotted with investment strategies that have yielded abnormal returns
- If you were to beat the market all the time, in time you would earn all the wealth within it and become the market—once you own the stock market, you're not outperforming it

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## "It Is Impossible to Be a Purely Passive Investor"

- Being a passive investor isn't about taking the easy way out and not caring about market valuations or expected returns
- Because there is still a significant amount of "active" investing involved in indexing; from picking a strategy to choosing the allocation or factors involved

- By choosing indexes based on selected parameters, you potentially take a more considered approach to investing than active investors, plus you tick the diversification box too #winning

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# Highway to the Danger Zone

## Top 5 of the Week of August 7

In our Top 5 this week, The Intelligent Investor Jason Zweig explains why stock picking is dying. L2 Inc's Scott Galloway teaches us how to identify the bubble danger zone. And the writer of Investing Caffeine, Wade Slome, reveals the necessary ingredients for an investment disaster.

Ehren Stanhope, the Factor Investor, delves into the "curious world of microcaps." And Barry Ritholtz, Chairman & CIO of Ritholtz Wealth Management, helps us find the active in low-cost passive investing...

## A Dying Art Form

- The number of publically traded companies has dwindled dramatically to 3,600 this year from the recorded 7,355 in 1997
- This ongoing shrinking number of stocks has resulted in a limited breadth of choice for stock pickers, and as such, the art form has become increasingly competitive
- For fund managers, given the considerable lack of stocks to choose from, they could end up spending more money blindly buying shares irrespective of their value—so, beware

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## Highway to the Danger Zone

- It has been 8 years since the last recession, and if a financial crisis is "something that happens every five to seven years" we're fast approaching the next one
- Or are we? How can you tell if we're heading into a bubble danger zone? Well,

- asset prices will soar way beyond levels that are merited, resulting in a crash
- What to do? Be humble and live within your means, stay in the market, and take solace that it isn't just your fault

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## How *Not* to Invest

- Find overpriced investments which are undertaking major money-losing operations or declining financials
- Don't use an objective, quantitative framework and avoid cheaply valued stocks with high-quality growth potential
- Think short-term rather than long, panic about the rising price of stocks, and worry about the next bubble

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## Pick a Category

- As opposed to big businesses with billion-dollar valuations, micro caps are stocks with lower overall market values; up to \$500 million
- Companies in this category range from successful tech startups to businesses that are flailing: the "New Ventures," "Fallen Angels," and "Steady State" firms
- The defining attribute of a micro cap company is that it is in some form of transition; be it positive or negative—as investors, you need to cut through the data noise to work out which

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## Passive Investing Is Just Active in Disguise

- Nowadays, it's very hard for an investor to truly draw the line between active
- and truly passive investing
- While this may seem controversial, an index fund is created by decisions having been made in the past about its asset allocation
- Meaning that even though today's investors default to that initial selection, all the stocks involved were actively picked by someone at the start—making the process not entirely passive

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# It's all a Big Confidence Trick

## Top 5 of the Week of July 31

A Wealth of Common Sense's Ben Carlson heads up our Top 5 this week with a view on our bias for seeing bubbles everywhere. Jack Vogel, writing for Alpha Architects, reveals how to avoid overpriced winners in momentum investing. And from Evidence Investor, Robin Powell uncovers the confidence trick the fund industry plays on us.

Barry Ritholtz, Chairman & CIO of Ritholtz Wealth Management, examines the disappointment that comes with backtesting in Fundamental Investing. And Resolve Asset Management's Part 3 of Dynamic Asset Allocation explores the data on how assets produce their momentum...

## Bubbles, Bubbles Everywhere

- With two large boom-and-bust cycles in our recent past, it makes sense that many investors are spending all of their time worrying about bubbles and crashes despite them being a rare occurrence
- True evaluation of bubble potential requires an understanding of human behavior, rather than an examination of economic and market environment factors
- But today's environment is difficult, prices are up, but investors haven't reacted euphorically yet—likely because the Global Financial Crisis is still fresh in our minds

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## Avoid Overpriced Winners

- Overpriced Winners (OW) or 'constrained' momentum stocks here are firms with "high past returns, low institutional ownership, and high recent changes in short interest earning persistently low returns going forward"
- It appears short-selling constraints lead to an irrational inflation of price despite pessimistic viewpoints which would say otherwise, resulting in this overpricing
- From an investor's point of view, it makes more sense though to avoid going long on these types of stocks rather than shorting them

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## It's all a Big Confidence Trick

- The fund industry has a tendency to make a big song and dance about the launch of exciting new funds which are outperforming all the others
- Which makes sense, but they never discuss those that don't outperform in quite the same manner—instead, these just get quietly closed down
- The real song and dance is in being able to identify which funds will be long-term winners, which sadly, no adviser, investment consultant or fund analyst can do yet

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## Proceed with Caution

- Fundamental indexing (FI) or smart beta—a mixture of active stock-picking and passive investing—has grown in popularity alongside investor's recent huge embrace of index investing
- But FI is coming under crossfire because of the dangers that come with it from backtesting and overfitting performance results
- Investors expecting strategies to outperform based on backtested data will no doubt be disappointed when the same strategy is applied to the real time market

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## Part 3: When to Measure Performance Momentum

- Given the many ways to measure momentum, it is worth exploring if differences in risk and return patterns can affect the final outcome
- Creating momentum portfolios based on various risk-adjusted return ratios showed similar return outcomes on average
- The main benefit from the risk-adjusted methods versus price momentum is a lower dispersion in outcomes, hence, less distance between the best and worst test

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# Being a Successful Investor Requires a Specific Set of Characteristics

## Top 5 of the Week of July 17

In our Top 5 this week, Corey Hoffstein on Flirting with Models teaches us how to time our bond duration exposure. What Works on Wall Street writer Jim O'Shaughnessy reveals the traits you need to succeed at active stock investing. And Jason Zweig shares the outcome of his long chat with Peter Bernstein on his Safe Haven blog.

Walter Jones, guest posting on Alpha Architect, asks if the day of the month matters for trading. And Resolve Asset Management explores universe selection for Part 1 of their exploration of adaptive asset allocation...

## Evaluating Your Duration Exposure

- As the ongoing fear of rising rates continues to affect investors, it makes sense to shorten duration in bond portfolios—taking the chance to improve returns or mitigate risk
- By attempting to time the Bond Risk Premium (BRP), investors are trying to capitalize on the extra yield to be gained from holding long-term bonds over short-term ones
- Value, momentum, carry, and measuring the BRP itself are all capable of realizing "strong absolute and risk-adjusted returns" when timing duration

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## Being a Successful Investor Requires a Specific Set of Characteristics

- Maintain a long-term perspective on all your investments and put as much stock in the process you're undertaking as on the outcomes you want to achieve
- Ignore forecasts and predictions, and instead, embody patience and persistence in all your investment decisions
- Constant study, discipline and the creation of solid habits are the foundations of long-term success, and focus your concentration on knowing the probability, not possibility, of certain outcomes

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## Peter Bernstein Opens Up

- Bernstein, "economist, historian, investment thinker wisdom personified," believed that investors' most common mistake lies in extrapolation; making assumptions based on current trends
- Investors should accept that even in a hundred years no single person can figure out the key to how the stock market works
- Survival is the only road to riches, not maximizing returns, but by being conscious of risk management and diversifying your portfolio aggressively as part of your strategy

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## When Should We Be Trading?

- When testing a strategy, the chosen day for executing one's trades affects the outcome notably
- Research shows that tactical asset allocation strategies tend to perform better at the beginning and end of the month, yielding historical higher returns
- This beginning and end of month outperformance can be the result of the "turn of the month" effect or overfitting of the model to historical data: in the first outperformance is a feature, in the second it becomes a symptom

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## Part 1: Exploring Adaptive Asset Allocation

- When testing adaptive asset allocation, the chosen universe of assets has a major effect on the outcome, so we must cover the global spectrum of asset classes to remain unbiased
- A "poorly-designed investment universe" can cause uncertainty in results—was the asset class simply lucky or was the strategy itself the success?
- Testing then requires a framework that identifies a broad range of parameters to yield the best range of historical accuracy—to gain a view of the true nature of a strategy

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# Out-Of-Sample Testing: Not the Be All and End All

## Top 5 of the Week of July 10

In our Top 5 this week, Gogi Grewal of Sharpe Returns walks us through the basics of asset allocation. A Wealth of Common Sense's Ben Carlson explains why knowledge isn't everything. And Nir Kaissar and Barry Ritholtz debate knowing when stocks are properly valued in a Bloomberg post.

Michael Kitces, in his self-named blog, looks at the real reason behind the rising popularity of ETFs. And Alvarez Quant Trading's Cesar Alvarez examines the gray areas in out-of-sample testing...

## A Beginners Guide to Asset Allocation

- Asset classes tend to be split into equities (stocks) and fixed income (bonds)—with diversifying classes in commodities, real estate and private equity too
- History dictates that stocks yield better returns than bonds, and domestic and foreign equities are kept separately as they experience different risk and returns
- In the 1950s, Harry Markowitz deduced that by adding bonds to an equity portfolio you dramatically reduce volatility without overly affecting returns as they tend to be uncorrelated

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## Knowledge Will Only Take You So Far

- When it comes to learning, expanding our knowledge will only take us so far, learned wisdom is not the same as practicable skills—this is as true in investing

- as in any subject
- For investors, this means that improving your financial literacy does not automatically improve your money skills
- It is important to complement your financial education about the latest tactics and strategies with learning on how to make informed decisions

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## The Fundamental Argument Is...

- Kaissar believes it doesn't matter which ratio you use, all of them "point to higher stock prices in the U.S." compared to the overseas market
- Ritholtz believes that "valuation cycles are driven by psychology" and the current situation of performance difference between the U.S. and Europe will turn around eventually
- At its core, it's U.S. versus overseas valuation and so, a "loosely disguised active-versus-passive debate"
- Either way, diversifying in European indexes won't steer you wrong

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## Not in the Job Description

- With the rise of "no-load"—no commission fee—investment products, financial advisors (FA) are less about giving advice and more about portfolio management
- They are leading a move away from mutual funds and reproducing similarly diversified portfolios with ETFs as the building blocks—without mutual fund managers and extra cost layers
- **The result:** The ongoing rise in ETFs is not an increase in passive investing but in active investment strategies as FAs attempt to lower costs and increase their value

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## Out-Of-Sample Testing: Not the Be All and End All

- When backtesting, we can divide a sample of time series data into In-Sample (IS) and Out-of-Sample (OOS)—the IS data is used to find the strategy and OOS is used to evaluate that strategy's performance

- OOS testing though can cause issues because past markets vary greatly to today's, it's difficult to test for human nature as a factor, and it can lack data
- Also, our knowledge of the OOS time frame can create a bias for the way we test, so we don't get truly impartial results

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# Speculate on High-Risk Assets without Going Nuts

## Top 5 of the Week of July 3

Jason Zweig, writing for his Safe Haven blog, kicks off our Top 5 this week by advising us on how to take crazy risks. Inefficient Markets blogger Vitaliy Katsenelson reveals the stocks investors are buying in today's stock market. And Above the Market author, Bob Seawright writes about evidence-based investing and the types of advisors involved.

A Wealth of Common Sense's Ben Carlson examines what the market does not care about. And Chris Reining interviews investing guru Morgan Housel for his self-named blog on how to build wealth...

## Speculate on High-Risk Assets without Going Nuts

- There has been much advice given by distinguished investors on the nature of speculation in investing; specifically on the dangers involved with taking on high-risk assets
- But, there are ways to speculate that don't involve making rash decisions and losing your mind
- Firstly, as Benjamin Graham suggests, set "aside a portion for this purpose" only—keeping it small—secondly, never mix your speculative assets with your mainstream investments, and finally, buy when it's insane but not when it's sexy

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## Current Buying Trends

- With the global economic environment as it is following Brexit in the UK, Japan and China struggling under masses of debt, and the earnings of the companies in the S&P 500 stagnating since 2013...
- Investors have been seeing stable but inferior returns, the average stock is expensive at the moment, and mutual funds are not faring much better
- All of which results in investors not buying the stocks they actually want to but merely what they dislike the least

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## The Stock Market Doesn't Care About...

- **The price you paid for a stock:** You can anchor to that value all you want, but the market won't wait to help you recoup your loss
- **How complex your investing strategy is:** Whether you make your investing process ridiculously simple or insanely difficult, it makes no odds either way
- **What political or religious stance you take:** You can be Republican, Democrat or Liberal, and you can lean towards any number of the ideologies available; the market still doesn't care

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## Don't Be That Guy

- When considering investment advice, receiving information and solutions that are supported by good evidence seems like a no brainer
- Yet, too few true practitioners in the investing world actually undertake evidence-based investing
- Motivation for advice can be based on fear, age and reputation, passion, novelty or nerves—so avoid these advisors like the plague
- Find an advisor who constantly rechecks and tests their work and assumptions, reinforcing their advice with life-long learning

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## Answers to Being a Successful Investor

- It's important to appreciate what drives you and your financial goals as you journey through life; work out what makes you happy and how your finances can help you realize these ambitions
- The more experienced investors become, the more they tend to lean towards simpler investing strategies
- Focus on knowing yourself and your behavior; investment mistakes tend to happen because investors make decisions driven by emotions causing more pain to themselves than the market does

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# :(: — You Decide on the Point of View

## Top 5 of the Week of June 26

Ben Carlson, for Bloomberg this time, opens up our Top 5 this week with a look at complacency in today's bull market. The Reformed Broker Joshua Brown tries to solve the biggest problem in the investing world at the moment. And Larry Swedroe, writing for Alpha Architects, discusses the Holy Grail in active mutual fund investing.

Collaborative Fund's Morgan Housel comments on the lure of pessimism. And Chairman & CIO of Ritholtz Wealth Management Barry Ritholtz explains why we can't read market sentiment anymore...

## No Market Correction? No Problem... Right?

- There is never a lack of things to worry about in the markets; high on the current list of problems is the ongoing low volatility
- A lack of risk is a concern because it can lead to investor complacency, which will surely mean an overreaction when the market eventually does go through a correction
- There's never going to be a "perfect all-clear" from the markets, and while investors don't have many other options, they're not necessarily complacent—just unwitting participants in today's bull market

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## Why Is No One Celebrating?

- Given the fact that stocks are rising and the market is setting record highs each day currently, it's unusual that more investors aren't celebrating
- But there is no joy to be found in mutual funds or hedge funds or investment banks—all are suffering from the rise of machines in place of people
- Job insecurity certainly eats into any cause for celebration given that 65% of the market is "terrified," and if professionals aren't enjoying themselves, it's no wonder individual investors aren't either

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## Seeking the Holy Grail

- Every investor wants to find the Holy Grail of an outperforming mutual fund—though just as with the myth, this quest is impossible
- As well as being a poor indicator of future performance, past performance has minimal worth as a predictor also—active share too has little evidence to demonstrate that it works any better either
- So instead of concentrating on alpha, own a fund that focuses on market beta—and also considers other factors such as size, value, and momentum—to gain higher returns

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## You Decide on the Point of View

- If offered an optimistic or pessimistic view of tomorrow, our tendency is to readily believe that the future looks bleak rather than rosy
- It's a survival trait as Daniel Kahneman stated, "Organisms that treat threats as more urgent than opportunities have a better chance to survive and reproduce"
- We focus on our pessimistic mindsets because it's easier than being hopeful
- So, maybe it's better to maintain these low expectations; when we are proved wrong it will, instead, be a pleasant surprise

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## A Mess of Information

- The dominance of the Internet in our lives has drastically changed the way we share and interpret data analysis and opinions on investing
- While on the surface this may seem easier to 'read' the market, the open platform for anyone and everyone to share their thoughts has, in fact, made it much harder
- Picking your way through this glut of information on top of the "usual cognitive biases and filter bubbles" just makes for a mess of confused readings—no wonder we can't work out market sentiment

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# A Bit of Portfolio Tailoring Here, and a Touch of Hedging There

## Top 5 of the Week of June 19

In our Top 5 this week, The Irrelevant Investor Michael Batnick discusses the driving factor of investing success and failure. Tadas Viskanta of Abnormal Returns shares investing wisdom from top finance writers. And Corey Hoffstein, author of the Flirting with Models blog, uncovers his financial planning research.

Philip Huber, from Bps and Pieces, reveals the "unsung heroes" of the financial world. And Bloomberg's Noah Smith explains why it might be smart to worry about ETFs...

## Juggling Our Emotions

- Investing is an intensely personal ordeal; the driving force behind our search for optimal returns is not just the data but our emotions
- So, while we all invest in the same stock market, we each approach investing in our own way—actual returns may be identical for two investments, but each investor will feel a very different satisfaction yield from the process
- It is the influence of our emotional returns which explains why investing behavior is a leading cause of success and failure

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## Investing Wisdom

- [Tom Brakke](#), "Very few investors, including professionals, can avoid the tug of historical numbers when making decisions"—Don't build up false judgement based on past performance
- [David Shvartsman](#), "Top traders and investors work to find strategies that suit their personalities"—Find an investing approach that enables you to stay committed
- [Charles Sizemore](#), "Overweighting a position, no matter how good it looks, is almost always a bad idea"—The odds can work against even seasoned professionals

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## A Bit of Tailoring Here, and a Touch of Hedging There

- In asset management, there is a gulf between research and individual investors; resulting in generic portfolios untailored to time horizons, spending requirements, and tax pressures
- We rely on financial advisors and planners to bridge that gap, assessing risk capacity and introducing cash or leverage to reinforce the individual level of tolerance
- But, research shows that higher risk portfolios should be tailored to Value and Momentum, and for lower risk levels we should hedge with Low Volatility and Quality

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## Unknown Investing Heroes

- Developer of the first open-end mutual funds: Edward Leffler who revolutionized the mutual fund by enabling it to grow— by replacing shareholders who left with new ones
- Or pioneer of the first index fund by William Fouse who married "modern portfolio theory concepts" to "practical investment application" for the first time
- And Nate Most, who laid the groundwork for the first ETF, his commodities trading experience founded how ETFs function today—though it took three

- years for the idea to take root

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## **ETFs—Should We Be Concerned?**

- When it comes to financial innovation, we only tend to discover a fault in any new process when it breaks down
- Which suggests that we should be asking if the growth of ETF popularity indicates the ETF market is headed towards disaster?
- As ETFs expand into broader and more "exotic" markets, they increase the liquidity risk of being immersed in a 2008-style crunch, so, maybe we should be concerned

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# It's Okay to Disagree with Warren Buffett

## Top 5 of the Week of June 12

The guys at Farnam Street blog head up our Top 5 this week sharing English psychologist [Peter Cathcart Wason's](#) research. Collaborative Fund's Morgan Housel examines our approach to risk. And Allan Roth, writing for ETF.com, explains his opposing stance to Warren Buffett's—even while being a fan.

David Merkel of The Aleph Blog discusses the effect of ETFs and cash flow. And Jason Zweig, in his Safe Haven blog, reflects on the lessons economist [John Maynard Keynes](#) can teach us...

## It's a Numbers Game

- Wason's experiment demonstrated that the majority of us have a tendency “to confirm rather than disprove our own ideas”
- On being given a set of three numbers—that only the experimenter knew the rule for—subjects, encouraged by getting their previous guesses right, make a confident assumption based on the "evidence" so far
- This inclination to confirmation bias is a widespread human trait, unfortunately—especially when investing—we're not inclined to seek evidence that disproves what we believe

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## The Concept of Risk

- We make a lot of our decisions on taking future risk based on past events, but it is the cultural element which is more persuasive than the analytical element
- As such, an investor's level of willingness to deal with risk in the stock market is directly linked to the market events they've survived in their personal history
- Crashes, high inflation, and recessions all lead us to be more conservative than younger generations who haven't been through similar experiences—something we should bear in mind

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## It's Okay to Disagree with Warren Buffett

- Buffett is known for praising the S&P 500 Index funds, but it has its faults; it ignores many U.S. companies and is very popular, which means new entrants come in at inflated prices
- Also, Buffett is not so hot on bonds advising only "10% short-term government bonds"
- To overcome these, go global with your index fund instead and, be choosy, but know that a good percentage of high-quality bonds serve a vital low-volatility role in your portfolio

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## Convenience Is All

- There is some confusion among investors that the growth in the popularity of ETFs is distorting the market and driving up the price of individual shares
- Investors want to pay more for a "convenient package of stocks" than single assets, but that doesn't indicate a connection between ETFs growth and a bull market
- There has been a growing shift in relative price; growth is currently popular while value is not, but it won't last forever—it'll shift back

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## Take a Different Look at the Market

- John Maynard Keynes was an esteemed investor who stayed stoic after the Crash of 1929 and bought stocks as the U.S. was heading into the Great Depression
- He saw the positive outcome in buying stocks that had deviated from market value, as opposed to others who could not see past the adverse effects of the event
- In Keynes' own words, skilled investors should be working "to defeat the dark forces of time and ignorance which envelop our future" to overcome our emotions during our decision-making

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# The Right Market Crash? Rare as Rocking Horse S\*\*\*

## Top 5 of the Week of June 5

Samuel Lee of SVRN Asset Management kicks off our Top 5 this week explaining why waiting for market crashes is a bad idea. The Reformed Broker Joshua Brown cautions us against painting our own investment mosaic. And Cullen Roche of Pragmatic Capitalism examines the optimal way to construct your bond portfolio.

Peter Lazaroff, in his self-named blog, explains when 'less is more' in investing. And A Wealth of Common Sense's Ben Carlson questions which investors will stay the course through the next market downturn...

## The Right Market Crash? Like Rocking Horse S\*\*\*

- Many investors sit on cash awaiting a market crash before buying stocks
- Research shows that, on average, this can be a bad idea at any drawdown level—from -10 to -50%—over following a buy and hold strategy in both absolute and risk-adjusted terms
- However, buy and hold doesn't always win, the best success result lies in waiting for a 40-45% crash before you buy (and holding for at least five years) to capture over half the market's return
- But these happen *maybe* once every 18-years—not exactly often

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## Beware of Constructing Your Own Investment Trap

- Superficially, creating an investment mosaic from data points, news, and economic findings to reinforce your viewpoint can seem "informed"
- On the one hand, when the market fits with this viewpoint, it asserts your profitable—and knowledgeable—stance while those around you are losing money
- But on the other, dismissing context and leaving out information that doesn't suit will sweep you along in your narrow mosaic and trap you—as well as others—if you're not careful

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## Disproportionate Contributions

- The all or nothing bias is common during bull markets when big winners are many; these positive returns can have a large impact on overall portfolio performance so you may feel like you want to go all in
- The temptation to chase outperforming assets and adjust your portfolio is huge, but it is risk and not returns that investors are pursuing
- Good portfolio construction is not about building a 'perfect' one—there's no such thing—instead, let diversification play its vital role keeping your portfolio sustainable

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## Less is More

- Tempting as it is to constantly check the progress of your portfolio; employing a 'less is more' approach to checking up on your investments is crucial
- By watching our portfolios constantly, we're more likely to see losses and react to them, and increasing your trading activity typically leads to more errors
- Accept that investing successfully is, in part, about realizing your losses and moving on, though it's possible to reduce your chances of loss by investing over an extended period of time

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## Sadly, There's No Such Thing as a Do-Over in the Stock Market

- When considered in retrospect, it seems easy enough for investors to re-navigate the market with perfect precision
- Our investment hindsight knows exactly when we should have traded in the past events of our current bull market, and given the opportunity to do it all again we would never have demonstrated any loss
- At the time though, employing the right buying strategy is challenging, and as there is no do-over option in investing it's best to remain disciplined through any future market downturns

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# The Rise of Math and Machines

## Top 5 of the Week of May 29

Heading up our Top 5 this week, The Reformed Broker Joshua Brown reveals how Neil Gaiman's plot for [American Gods](#) is playing out in the stock market. Charles Lieberman, writing for Bloomberg View, explains why we should trust hard data more. And Chas Boinske of Independence Advisors reveals the 'perfect' conditions for fishing and investing.

The Macro Tourist Kevin Muir recounts a trading lesson fable from Norway. And Intelligent Investor Jason Zweig reflects on author Dr. Richard Bookstaber's findings on digitized streams of market information from his book, [The End of Theory...](#)

## Pay Tribute on the Altar of the New Gods

- As faith in the Old Gods—carried to America by its inhabitants—waned, so too are the pillars of the stock market—built on American Exceptionalism—flagging against the rise of New Gods
- The stocks sitting at record 52-week highs in today's market are all fueled by our transferred faith and 'belief' in technology, data, systems, and innovation
- And our "objects of worship"? The phones we check 2,600 times a day, the television which holds our attention, and the Internet which answers all our questions

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## Focus on the Right Data

- The contradictions in hard U.S. economic data and survey-based soft data are leaving investors confused as to why we've seen three Fed hikes this year
- Soft data—though it looks stronger on the surface—is only a qualitative measure of how people feel, whereas hard data provides a quantitative measure of how people truly behave
- Hard data indicates that hiring in the labor market is firm, labor costs are escalating slowly, and labor is scarce, hence the Fed normalizing interest rates

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## When to Fish and When Not To...

- Fishing and investing are similar in that many people are on the lookout for the ideal weather situation before casting out a line
- As fishermen and investors, we'll pay a higher price for shares and accept modest returns in good weather conditions but prefer to wait out storm clouds and low priced shares on the river bank
- Waiting it out though is counterproductive to less volatile long-term returns, instead rebalance your portfolio and get dressed to fish/invest in all weather conditions

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## The Moral of the Story...Think about the Next Trade

- In the mid-1960s—so the story goes—Norway's economy survived on agriculture, timber, and fishing until Ocean Viking struck oil in the North Sea
- When the market saw Norway was a major oil producer, traders chased headline news for companies at the next oil find to become wealthy
- One wise investor was a step ahead and realized all this new money would end up in luxury goods, so he bought up the best pieces on the art market and all those nouveau riche had to come to him for a look in—smart move

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## The Rise of Math and Machines

- The increasing use of mathematics and machines to digitize stock market information are diminishing investors' use of their own powers of reasoning
- According to Bookstaber, when you measure markets, you change them, and, importantly, they are also made up of human beings not just digitized streams of information
- Quantitative models alone are not a reliable reflection of human behavior and unpredictability in markets—match computer analysis and modeling with your own judgment for best results

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# Just Stay Out of the Water

## Top 5 of the Week of May 22

In our Top 5 this week, Provost Professor of Finance at the University of Colorado Sanjai Bhagat argues for the Harvard Business Review that we should change board directors incentives. Meir Statman, author of [Finance for Normal People: How Investors and Markets Behave](#) and writing for Wealthfront, discusses our rational versus irrational behavior. And The Financial Samurai, Sam Dogen, advises us to say no to angel investing.

Dr. John Hussman of Hussman Funds explains how the market is not really different this time. And Shlomo Benartzi and Hal E. Hershfield warn us of the dangers of financial apps on our retirement for Market Watch...

## Provide the Right Incentives

- Following scandals at top companies—Wells Fargo, Lehman, Enron, and Qwest—the way boards of directors are focused has undergone some scrutiny
- If we change how directors are incentivized, currently in cash retainers and stock options, similar crimes could be avoided
- By compensating only with restricted equity—they'd be unable to sell shares for at least one or two years after their last board meeting—we could focus their attention on the long-term success of the company rather than their own gain

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## The Smart Move

- Behavioral finance can teach us much as investors if we see beyond just the utilitarian benefits of financial products
- By increasing our understanding of the full range of investor's wants—the driving forces behind our decisions fueled by utilitarian, expressive, and emotional factors—we can better avoid being "irrational"
- Learn the lessons behavioral finance has to offer and improve the ratio of smart to foolish decisions you make

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## Just Stay Out of the Water

- Angel investing has become increasingly popular since 2009, but individual angels are entering dangerous waters when trying to compete with venture capital (VC) firms
- VC firms invest other people's money in order to make returns—as a solo investor, you have zero edge and you're the sole bearer of all associated risk
- Also, as a minority investor you have zero liquidity and no say in the management decisions or funding rounds; all for dismal returns—safer just to avoid swimming at all costs!

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## "This Time Is *Always* Different"

- Because history does not repeat itself in exactly the same manner time and again, we fail to learn from it; believing that "this time" is entirely different—every time
- Yet, we cannot ignore what history can teach us by being so wrapped up in the singularity of events that we disregard known principles
- In financial markets, each "new era" we face should be carefully quantified and analyzed so that we do not neglect the central principles of investing by being so short-sighted

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## Financial Apps Should Come with a Warning Label

- Studies show that despite connecting us better with our retirement accounts, financial apps are engendering mistaken beliefs about the value of our retirement investments
- They are desensitizing us to large sums of money by presenting our retirement information in large lump sums—giving us the 'illusion of wealth'
- They fail to help us correspond these large amounts to what will realistically become our monthly income and expenditures—and we run the risk of being ill-prepared for our futures

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# Don't Be an Ostrich Investor

## Top 5 of the Week of May 15

Meb Faber, the author of his self-named blog, heads up our Top 5 this week with his perspective on high market expectations. Michael Batnick, writing for *Enterprising Investor* for a change, examines investing in Europe. And Noah Smith of Bloomberg reveals the trouble with spotting bubbles.

The *Intelligent Investor* Jason Zweig looks at investors' beliefs. And Reformed Broker, Joshua M. Brown, guides us on our current choices in today's market...

## Be Realistic about the Stock Market

- According to John Bogle's valuation model—10 year annualized stock returns = dividend yield + earnings growth + change in P/E ratio—investors should set their stock return expectations at an average of 6.7% going forward
- But research shows that investors' return predictions are currently fixed at a rather unrealistic 10.5%
- This bar is set way higher than is feasible, so be prudent and lower your market expectations—that way any additional returns you gain are a pleasant bonus!

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## Retreat or Advance on European Equities?

- European stocks are currently 'seen' as stagnating and experienced a crazy 66% drawdown
- If U.S investors consider only long-term performance it is easy to see why not to invest
- But over the last few years, from 1970 to 2009 and all thanks to the power of

- compounding, the S&P 500 compounded at 9.87%, and MSCI Europe at 9.88%
- So, while investing in Europe was no doubt seen before as "reward-free risk," it might be worth reconsidering and allocating a small portion of your portfolio outside of the U.S.

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## Plenty of Bubble Alarm Bells, but No Pop

- It is very hard to get the timing of bubbles right, though if it were simple to make these predictions, investors wouldn't buy stocks at inflated prices
- And the payoff for correctly predicting these events can be quite lucrative, gaining you notoriety and a reputation for being wise, which far outweighs any penalty for being wrong
- So, while we may need bubble-callers, there needs to be a balance, don't cry bubble-wolf unless you can back it up with data and insight

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## Don't Be an Ostrich Investor

- Recent surveys show that among investors' expectations are a long-run average of 8.5%, and projected returns of more than 20% in venture capital
- This optimism and almost magical expectation of returns can be linked to information avoidance or 'intentional ignorance' as it's known
- Rather than reading available but unwanted information, investors bury their heads in the sand; so to be successful "worry more about being wrong than right"

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## Your Choices in a Market Selling at Record High Valuation

- On the downside, we have a stock market of high valuations, but on the plus side the global economy is recovering, and the Fed delaying normalizing rates mean we have a few choices available
- Run with the classic buy and hold strategy (despite the negatives), build a cash ark like Warren Buffett or diversify away from overvalued U.S. stocks to other asset classes

- Other choices include betting against the market, hedging with short positions or assuming a tactical asset allocation approach

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# Contrary to Bubble Belief

## Top 5 of the Week of May 8

Our Top 5 this week kicks off with Joshua Brown, financial advisor at Ritholtz Wealth Management, who offers an alternative argument to David Einhorn's (founder of Greenlight Capital) current market perspective. Forbes Finance Council task us, as investors, to get involved with impact investing. And Ryan Kirlin, writing for Alpha Architect, shines a light on ETF development.

Ben Carlson of A Wealth of Common Sense argues that this "winner takes all" market is nothing new. And Tadas Viskanta, author of Abnormal Returns proposes that we should keep ETFs weird...

## Contrary to Bubble Belief

- Recently, Einhorn has proposed the argument that investors are in danger of repeating the 2000 dot-com bubble by investing in profitless companies
- Bubbles tend to come about though from an overenthusiastic surge behind stocks in a single sector before the popularity of the trend takes a sudden about-turn
- That being said, it is difficult to find any comparative enthusiasm or sentiment in today's bull market situation, as "pretty much everyone is miserable"

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## Be an Agent of Social Change

- Impact investing is about taking responsibility for the health of our planet—and everyone can get involved
- These type of investments can help us address problems by filling the gaps that

- government grants can't cover with private capital; helping tackle issues such as climate change, severe poverty, and poor access to healthcare and education
- As investors and human beings, it is our moral obligation if we can to get involved with the challenges our planet faces and be agents of social change

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## A Spotlight on ETFs

- Though the ETF industry is over 20 years old, it has only been in the last five years that they have really started to capture the minds of those in the investment world
- As ETFs have risen in popularity compared to mutual funds, financial advisors are taking the driving seat in portfolio decisions once more
- But the right tools and education are required to provide holistic advice and help financial advisors address the next wave of ETF services

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## Who Will Be the Next 'Amazon'?

- With fewer companies in a shrinking index pool, it is becoming harder to forecast who the next big "winner" will be
- This is not a new concept though, the current winners have been defined by their rising popularity due to the disruptive nature of their businesses
- As such, the future will similarly be carved out by an entirely new group of future winners cresting the top of the market and economy by causing a brand new disruption

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## Stay Far From the Norm

- When ETFs first launched in 1993 they were a revolutionary idea that came about by chance following the 1987 stock market crash
- Since their inception ETFs have mostly had a positive effect, yet they are also criticized for the behavior they cause in investors, their construction for a market trend, and returns that don't match expectations
- While not perfect, ETFs are great for testing new strategies and ideas out if kept

- appropriately "weird" and well-diversified—it's worth staying enthusiastic about them

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# Is My Investing Strategy Broken?

## Top 5 of the Week of May 1

In our Top 5 this week, Isaac Presley, CFA of The Cordant Blog asks how we know if our investing strategy is broken. Chairman & CIO of Ritholtz Wealth Management, Barry Ritholtz, writing for Bloomberg View, advises investors to respond to financial news cautiously. And Ben Carlson, A Wealth of Common Sense, looks at how the market is both always the same and different from the past.

Meb Faber, author and co-founder of Cambria Investment Management, shares his portfolio insights with us. And Sherree DeCovny, writing for The CFA Institute, discusses how ESG investing is becoming more mainstream...

## Is My Investing Strategy Broken?

- Extended periods of meager returns are enough to try any investor's patience, and it's during these low times that you start to question the strength of your strategy
- While these periods of low returns are no fun to wait out, they're not unexpected with any investing strategy
- As long as your returns remain within your strategy's expected range of probable outcomes, stay convicted and stop distrusting your chosen investing approach

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## "Be Careful What You Read"

- With so many online investment writers and blogs available, it's difficult for investors to steer through financial media and be able to discern truth from noise
- Just as you assess stocks, so too should you learn about who and what you're reading, so you're not unwittingly reading anything misleading
- Don't search financial media for the latest stock 'tip'—apply critical thinking to your reading, especially where money is concerned

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## A View of the Past

- We look to market history to help us understand the future, and previous cycles demonstrate how some things remain the same while others are always varying
- But markets mature in line with our growing life expectancies, technological advances, and spending/investing behaviors—as reflected in changing interest and inflation
- Act wisely and always plan for lower future returns than the past may indicate, as long as your behavior remains calm the uncertainty of the future won't affect you too badly

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## Total TAIL Transparency

- It's unnerving if investment writers don't follow their own advice or if fund managers aren't invested in their own funds
- In this light, Meb Faber explains his recent allocation to his company's (Cambria) new TAIL Risk ETF; a strategy to protect against market declines—unexpected or not
- Though the fund is expected to lose money over time, it aims to hedge against big market downturns and volatility using US government bonds and put options on the S&P 500—a prudent course of action given the current bull market state

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## Mainstream Green Investing

- Impact investing—based on environmental, social, and governance (ESG) factors—used to be limited to a niche group of investors
- But as we become more aware of our social responsibility, ESG investing is growing more mainstream and accessible in all asset classes
- Research also shows that companies who employ sustainable initiatives offer better equity performance than those who don't

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# The Link between Price and Perceived Worth

## Top 5 of the Week of April 24

Collaborative Fund partner, Morgan Housel, heads up our Top 5 this week with his perspective on the nature of risk. The Irrelevant Investor Michael Batnick uncovers the S&P 500's streak of tranquillity. And James Picerno, writing for The Capital Spectator, examines benchmarking for portfolio analysis.

Dr. Daniel Crosby of Nocturne Capital walks us through the psychology of value investing. And Ben Carlson, from A Wealth of Common Sense, writes of the dependability of cycles...

## Take a Risk Assessment

- When trying to decide where to invest money, the level of risk profile you're prepared to deal with is an important factor
- Many investing strategies run the same level of risk but over very different time periods, and high risk in short time frames is paid for in increased stress and anxiety
- Make a risk assessment based not just on the volatility you're prepared to run the gamut of, but also how long you can deal with the emotions that they'll result in to see it through

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## The S&P 500's Streak of Tranquility

- The last incredible streak in the stock market happened over nine years from

- 1989 to 1998; where the S&P 500 did not fall below 5% in a single week
- That's 462 weeks, compounding nearly 17% a year, for a whopping 290% total return before ending "with a bang" and heading into instability
- The last "bad week" we had was in January 2016, and it's worth remembering that bad weeks put fear in the heart of investors which can affect your portfolio –don't react to this fearmongering

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## Picking the Right Benchmark

- It's difficult to select the right benchmark for your portfolio, because choosing the wrong one can be worse than not picking one at all
- The standard approach to benchmarking is to compare risk and return against the S&P 500
- However, using a benchmark created from randomly selected but related portfolios offers you a superior way to analyze your risk and return

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## The Link between Price and Perceived Worth

- Items that are rare and come with higher market value have a higher perceived worth by customers
- The very same items, if made easily accessible and cheaper, will be deemed less 'worthy'—demonstrating that price is our foremost measure of perceived 'quality'
- When it comes to investing, investors must recognise this attribute and correct this behavior; disconnect any preconceived link between the price of a product and its value

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## The Dependable Aspect of Markets

- Depending on how you interpret and present financial data you can show almost anything you want, but what will always come out is the cyclical nature of markets
- Our lifecycles don't always match up with market cycles though, and the ups

- and downs of the market can hugely impact our investments—both positively and negatively
- And as investors struggle to deal with the inconsistency of stock returns, this is where we turn to diversification for help

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# Being a Snob Will Cost You Money

## Top 5 of the Week of April 17

A Wealth of Common Sense's Ben Carlson kicks off our Top 5 this week with a look at what other areas of life would be like if they acted the same as Wall Street. J.C. Parets, Founder & President of Allstarcharts Holdings, extinguishes the belief that we're in an 8-year bull market. And Anthony Isola urges us to not be elitist investors for his A Teachable Moment blog.

Tim Brennan, the founder of Ariadne Wealth Advisors, writes of how optimism is a driving factor of investing success. And Barry Ritholtz, Chairman & CIO of Ritholtz Wealth Management, discusses the truth about the life and/or death of active stock management...

## Only on Wall Street

- *One hit wonders:* We continue to remind you of the success we released years ago even though we've not created anything remarkable since
- *Work performance measures:* Innovation must happen consistently, if you're not achieving glory 24/7, you must be slacking
- *Product selling:* We are going to make this recommendation to you, but if that fails, we'll suggest you should have done something entirely different

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## Using Numbers to Fool You

- Many speculations are being submitted that this year marks the 8-year bull

- market anniversary of the S&P500
- This is based on the argument that 2011 was the first time the S&P500 did not fall to 20% on a closing basis
- What these people don't admit is that this number is entirely subjective, intended only to reinforce their self-serving reality—without letting facts get in the way of this

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## Being a Snob Will Cost You Money

- With great wealth comes the elitist expectation that you should be paying top dollar for investment products
- Get over the stigma that you can't invest in services or products that are accessible to everyone; just like the incredibly rich Warren Buffett
- His recent bet leveraged that he would make more with the low-cost S&P500 index fund than investors sinking money into hedge funds
- An outcome which returned 7.2% gains from the S&P500 to the hedge funds mere 2.2%

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## Pessimists Lose Out

- Lack of confidence in your investing abilities can be detrimental to your success —be optimistic about your skills and future
- And not just in yourself, be positive about the future of the financial markets and global economy; the stock market can be rewarding, and the evolving economy is strengthening
- Confidence in your investing abilities is not about beating the market but understanding your behavior (and overcoming it) and knowing the limitations of your investing knowledge (and accepting them)

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## Active Stock Management: "Dying, Dead or Making a Comeback"?

- Financial media is taking a variety of stances on the life, and death, of active

- stock management—depending on what you read
- There is a lot of research to show that trying to beat the market—or a specific benchmark—is hard to do consistently
- Behavior and certain factors (size, value, profitability, etc.) have a lot to do with active funds success too—making it less 'active management' and more closet factor investing

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# The Other Side of the Index Fund Coin

## Top 5 of the Week of April 3

Heading up the Top 5 this week, AQR's Clifford Asness explores the impact of the upcoming new Fiduciary Rule. Ben Carlson plays devil's advocate about index funds for his blog, A Wealth of Common Sense. And Angelo Calvello, The Dissident at the Institutional Investor, looks at the asymmetry between asset owners and asset managers.

Michael Kitces of Kitces.com looks at the ever evolving optimal retirement income strategy. And author Daniel Solin reveals the headlines we'll never see in financial media for his own blog...

## Unexplored Consequences

- The new Fiduciary Rule—extending coverage over a wider array of investment advisors who give advice on retirement plans—was set to begin this month in April, but has been pushed back now till June
- That advisors must only act with their client's best interest at heart seems, on the surface, a positive
- But the marketplace may potentially be neutered by these new fiduciary standards as fiduciaries attempt to stifle investing in line with these regulations; suffocating any innovation

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## The Other Side of the Index Fund Coin

- Index funds have grown very popular, but that's not to say they are without their downside
- Even in index funds there are investors that panic at the first sign of trouble and sell; amplifying volatility and increasing risk for all
- There is no longer just one traditional type of index fund, as more and more index-like products become available the amount of choice is overpowering
- Index funds are not the be-all and end-all solution to investing—they're also not necessarily the right strategy for everyone

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## Like It or Lump It

- There is little to suggest nowadays that asset owners hold an equal stance with asset managers—no matter what they'd prefer to believe
- The imbalance is demonstrated clearly in "misaligned fee schedules and liquidity terms," and by some asset managers actively eliminating references to fiduciary duty
- A fairly recent occurrence, this shift in the power dynamic between asset owner and asset manager essentially suggests to the owner that their interests are no longer a primary concern of the manager

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## Investing Evolution

- Portfolio strategies have altered their focus on income sources since the 1950s, starting with bonds, then dividends, before a "total return" approach to include capital gains
- As capital gains are volatile, the modern view on retirement portfolios has evolved to include reliance on retirement principal as an income source too
- Year to year, you won't be able to predict which area your retirement income will come from but it relies on the four pillars—interest, dividends, capital gains, and principal

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## If Financial Papers Told the Truth

- **"It would be more accurate to call 'predictions' by our experts 'random guesses'"** No matter where you're getting your expertise from, no one can accurately predict the future of the market
- **"Overweighting your portfolio in gold is dumb, no matter how frightened you are"** Volatility can be scary but gold or cash will offer you no security either
- **"You'd be better off not watching or reading us"** Cutting through the noise to real worth with financial media is near impossible, just steer clear of it all

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# What the Newspapers Don't Report

## Top 5 of the Week of April 3

In this week's Top 5, David Merkel from The Aleph Blog examines the classic Permanent Portfolio strategy. CEO of O'Shaughnessy Asset Management, Jim O'Shaughnessy, writes about the personality traits active investors need to succeed long-term. And Ivaylo Ivanov of Ivanhoff Capital looks at past performance impacting future success.

The Irrelevant Investor Michael Batnick reveals how we overlook steady market improvements. And David Ott, for Alpha Architect, discusses the dirtiest words in finance...

## Go Classic with Your Investing Strategy

- Traditionally, the Permanent Portfolio approach comprises a quarter each of stocks, bonds, gold, and money market funds
- These equal proportions are an attempt to harmonize the impact inflation and deflation have on these asset classes while securing returns from them as they overshoot
- The result is a simple portfolio strategy with relatively low volatility that is easy to maintain

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## Characteristics for Long-Term Success

- To be a successful active investor; have a long-term perspective—avoid being sucked into short-term volatility—and evaluate your process as thoroughly as you assess potential investments
- Don't get caught out by market forecasts and predictions, remain diligent and determined, and stay in control of your mental fortitude
- It's also important to act based on probability rather than possibility; always work out the odds and be highly disciplined in all your investments

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## The Link between Past and Future

- The problem with past performance is that it does not indicate future success
- When everyone applies the same market strategies that look promising, based on past returns, they tend to stop working
- For long-term investments to prosper, they must go through short stages where they lose money
- So, either stay firm with the same strategy and go through periods of some loss or try many and stick with the one that works in the current market

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## What the Newspapers Don't Report

- In the last nine years, there has been an extensive list of headlining events in the stock market that have given us reasons to sell stocks rather than keep them
- From oil spills, earthquakes, and debt crises, to Ebola fears, Brexit, and the recent U.S. election, our global financial media reports on all of it
- What the headlines fail to share are the gradual improvements the stock market has made—the reasons to buy—as reflected in the 260% rise in the same nine-year duration

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## Dirty Ol' Market Timing

- Market timing has a bad reputation because it's mostly an unsuccessful endeavor for even the most seasoned investor
- Timing based on instinct, stock pricing, current events, and financial forecasts will bring you only frustration and loss
- However, [managed futures](#) with trend-following strategies have shown good results with regards to market timing
- Adding managed futures to a buy-and-hold equity portfolio “may or may not earn better returns” but may at least lower your overall volatility

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# Investing: A Zero Sum Game

## Top 5 of the Week of March 27

Ben Carlson heads up our Top 5 this week with his annually updated performance chart for his blog, A Wealth of Common Sense. ETF.com's Larry Swedroe examines the drawbacks of momentum investing. And Peter Lazaroff in his self-named blog writes of simplifying the investing game.

Resolve Asset Management teaches us that we should be intentionally missing the best months—yes really. And CEO of Ritholtz Wealth Management, Barry Ritholtz, stresses the importance of a good investment process...

## A Reminder to Us All

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	10 Years
EM 33.1%	Bonds 7.6%	EM 68.9%	REITs 28.3%	TIPS 13.3%	EM 19.1%	Small Cap 41.0%	REITs 30.1%	REITs 2.2%	Small Cap 26.6%	Small Cap 9.2%
Comdty 14.9%	Cash 1.5%	Small Cap 41.6%	Small Cap 27.2%	REITs 8.5%	International 18.8%	Mid Cap 33.1%	Large Cap 13.7%	Large Cap 1.3%	Mid Cap 20.5%	Mid Cap 8.8%
TIPS 11.9%	TIPS -0.5%	Mid Cap 37.6%	Mid Cap 26.3%	Bonds 7.7%	Mid Cap 17.8%	Large Cap 32.2%	Mid Cap 9.4%	Bonds 0.5%	Comdty 12.9%	Large Cap 6.9%
International 9.9%	Mid Cap -36.4%	REITs 29.6%	EM 16.5%	Large Cap 2.1%	REITs 17.5%	International 21.4%	Bonds 6.0%	Cash -0.1%	Large Cap 12.0%	REITs 5.1%
Mid Cap 7.1%	Large Cap -36.6%	International 26.9%	Comdty 16.2%	Small Cap 1.1%	Large Cap 15.8%	REITs 2.3%	TIPS 3.6%	International -1.0%	EM 10.9%	Bonds 4.2%
Bonds 6.7%	REITs -37.1%	Large Cap 25.9%	Large Cap 14.8%	Cash 0.0%	Small Cap 15.7%	Cash -0.1%	Small Cap 3.0%	TIPS -1.8%	REITs 8.3%	TIPS 4.2%
Large Cap 5.5%	Comdty -37.4%	Comdty 20.1%	International 8.2%	Mid Cap -2.1%	TIPS 6.4%	Bonds -2.0%	Cash -0.1%	Small Cap -1.8%	TIPS 4.7%	EM 1.1%
Cash 5.0%	Small Cap -37.6%	TIPS 8.9%	Bonds 6.4%	International -12.3%	Bonds 3.8%	EM -3.7%	EM -3.9%	Mid Cap -2.5%	Bonds 2.4%	International 0.6%
Small Cap 1.8%	International -41.0%	Bonds 3.3%	TIPS 6.1%	Comdty -14.0%	Cash 0.0%	TIPS -8.5%	International -6.2%	EM -16.2%	International 1.4%	Cash 0.6%
REITs -16.5%	EM -48.9%	Cash 0.3%	Cash 0.0%	EM -18.8%	Comdty -2.1%	Comdty -11.1%	Comdty -18.6%	Comdty -28.2%	Cash 0.1%	Comdty -6.8%

Funds: EEM, VGSIX, MDY, SLY, SPY, EFA, TIP, AGG, DJP, BIL

Ben Carlson, A Wealth of Common Sense

- The yearly updates to this performance chart serve as a reminder to all investors

- that no individual year has any particular impact on the market in the grand scheme of things
- Not only that, but it demonstrates how hard it is to foresee which asset classes will be winners and losers next year
- The continued advice to diversify at least will help you balance those parts of your portfolio that you hate with those that perform well

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## Momentum's Drawbacks

- Momentum is a factor which consistently generates good results in terms of equity returns and outperformance
- But momentum is riskier when used in short strategies, as during market downturns you would short certain assets, only to get stung by the resulting momentum crash that occurs when the it rebounds
- Since it is short-positioned momentum stocks which suffer this—weight your strategy properly, long-only momentum funds will survive in comparison

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## Investing: A Zero Sum Game

- The 'zero sum investing game' is a theory in which your gains are the equivalent to another investor's losses: wherein the net change in wealth is zero
- For the individual investor, the game becomes complicated by investment products with high fees, complex models, trading encouragement, and financial media
- Keep things simple for yourself by avoiding trading, keeping costs low, diversifying your asset allocation in a thoughtful and rational manner, and sticking to a long-term investment horizon

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## When to Be In and When to Be Out

- Missing the best periods of the market is bad for your investments, while missing the worst is good—but this kind of market timing is very difficult
- Compared to a buy-and-hold strategy where you're actually better off if you

- missed both the best and worse times in the market—as those periods tend to cluster together
- Back-testing shows if you can avoid both the best and the worst days you gain higher risk-adjusted returns—driven by lower volatilities

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## Think Your Process Through

- Applying a static approach, for example just looking at P/E ratio, to something as complex as equity valuation massively oversimplifies the situation
- Your investment process should always endeavor to undertake much more background examination than sometimes even financial managers consider, to truly be rational and advantageous for you
- Until you consider greater depths of context within your process, then you're working on mere guesswork—which can result in expensive mistakes

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# The Stock Market's Driving Factors

## Top 5 of the Week of March 20

Ben Carlson opens up our Top 5 this week, asking just how many hedge funds are worth the time and investment effort for the Enterprising Investor. John Szramiak, author of the Vintage Value Investing blog, contemplates the factors behind irrational investing behavior. And Collaborative Fund's Morgan Housel reveals that the secret to success is in our ability to accept losses.

CEO of Ritholtz Wealth Management, Barry Ritholtz questions the value of stocks. And Peter Lazaroff, in his self-named blog, examines the power of collective knowledge...

## How Many Hedge Funds out There Are worth Investing In?

- Hedge funds gained popularity after exhibiting exceptional performance during the early 2000s, causing a massive increase in the number of funds available
- Today, there are over 11,000 hedge funds out there worth upwards of \$3 trillion –but "size is the enemy of outperformance"
- Only 2% of that number are producing returns that warrant the fees, and even then, past performance is no indication of future results

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## The Stock Market's Driving Factors

- As investors, we would like to believe we only ever act with reason and neutrality when it comes to our investments

- But market data shows otherwise, in truth, the stock market is driven up by our greed and down by our fears
- Strive to invest with objectivity, apply diversification and risk management to your approach and process your decisions based on quantitative information, rather than emotional responses

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## The Art of Losing

- Just as in gambling and business, the key to achieving success with investing is to survive extended periods of losing
- Now, the edge you eventually gain may only be small, but effectively being able to absorb your losses is necessary to 'winning', and small edges can still produce large payoffs
- From this approach, you become more optimistic about the odds eventually working in your favor, and you place a higher value in your margin of safety

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## "Ritholtz's Rules of Valuations"

- For the best estimation when valuing stocks, certain guidelines should be followed
- Overvaluation can continue occurring for a long time, and cheap stocks can get cheaper still
- It's important to focus on the big picture, metrics such as P/E and P/B ratios should be examined in context
- There is nothing concrete about the idea of 'fair value', and you must take into account the many influencing variables stocks are subject to
- Finally, don't forget, market psychology plays a significant role too!

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## The Power of Collective Knowledge

- As far back as 1906, experiments have shown that as individuals our thought process is flawed, but when combined within a group that information adds

- depth to the collective knowledge
- For investors, trying to pit your unique viewpoint against the collective wisdom of the markets is an error in judgment and overconfidence
- Avoid trying to outsmart the market, though you may think you have an edge; it's highly improbable that you actually do when it comes to investing

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# A Few of the Worst Word Combinations for an Investor

## Top 5 of the Week of March 13

A Teachable Moment's Anthony Isola opens our Top 5 this week looking at the investment pairings you should avoid. Andrew Miller, writing for Alpha Architect, advises us against betting in opposition to Warren Buffett. And Meredith Jones for Institutional Investor suggests we stop "carping over fees."

Lauren Foster of Enterprising Investor helps us improve our decision-making processes. And The Irrelevant Investor, Michael Batnick, asks if we can predict bubbles...

## A Few of the Worst Word Combinations for an Investor

- **Average and Return:** There really is no such thing as an average market return that you can rely on, so don't deceive yourself that it's possible to achieve one
- **Day and Trading:** Actually, make that trading at any time of day; attempting to time the market with short-term speculations is a surefire way to lose money
- **Average and Down:** Buying more shares in a stock that has already dropped in price increases your odds of losses and can result in overweighting that sector within your portfolio

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## The Foolishness of Betting against Buffett

- Buffett's renowned bet that the S&P's performance would outperform a collection of hedge funds is drawing to a close; with Buffett undoubtedly

- winning
- Using the Monte Carlo method (a technique to account for risk probability), the S&P 500 wins against Hedge Funds 58.6% in over a 1,000 simulations
- Indicating that the odds were always in Warren Buffett's corner in this now (in)famous bet—following his principles for value investing

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## You Get What You Pay For

- While we think nothing of paying the markup on wine, bottled water, and designer clothes as consumers
- As investors, we balk at paying management fees for the returns on our retirement funds
- Balance the cost of your investments against its capability of providing diversification, returns, and access to niche market sectors to decide whether it's worth it

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## President + Trump = Investing Uncertainty

- 2017 is a year already renowned for its economic uncertainty, so in these ambiguous times it's important to make smart decisions
- Expect the unexpected and document your method; analyze your process beforehand to anticipate any surprises and keep track of the reasons for your decisions
- Take responsibility and be humble in your investment strategies; the outcomes of your decisions are on you and no one else, but by staying modest you can avoid the dire consequences of overconfidence

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## "Bubbles Are Like Snowflakes"

- No market bubble is the same, and 47.5% of the ones that have been identified since 1928 did not actually crash
- When they do go though, predominantly they burst without warning, and studies show that the probability of a crash is linked to the magnitude of the

- preceding index price increase
- But while the odds increase—100% return increases the probability of a crash to 53%, likewise 150% return increases odds to 80%—this still doesn't make it easy to predict

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# The Danger of False Beliefs

## Top 5 of the Week of March 6

Tadas Viskanta opens up our Top 5 this week with his piece from Abnormal Returns analyzing confirmation bias. A Wealth of Common Sense's Ben Carlson discusses the impact of our longer life expectancy on retirement horizons. And Ian Allison, writing for the International Business Times, examines the current machine learning revolution and how it transfers over into finance.

Anuchit Nguyen of Bloomberg View celebrates women taking a higher percentage of job roles in Thailand's world of finance. And Cullen Roche, author of Pragmatic Capitalism, looks at the investing myths behind gold as an asset...

## The Danger of False Beliefs

- As investors, we believe we know far more than we actually do, and we enjoy the feeling we get when we find information to 'support' our false beliefs
- Sticking to your guns—though you may be wrong—can have dire consequences even if it "feels good to do so"
- One of the reasons we continue to hold onto beliefs—despite being shown evidence that tells us they are false—is our confirmation bias, be aware of this when it comes to your investing decisions

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## Live Longer and Plan Further Ahead

- Evidence shows that the odds of men and women living past their predicted life expectancy have greatly increased
- This is a mixed blessing, while living longer is, of course, a bonus; people will

- need to adjust for a much longer retirement horizon financially—problematic if people fail to plan ahead accordingly
- Be aware of the implications; for both sexes in defining your investment portfolios and having longer working life spans, and for women; who are "overlooked in the financial planning world"

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## "A Toolbox for Learning"

- The financial world is largely about finding correlation and patterns in the stock market, while machine learning is about being able to teach a computer to learn without programming
- So far, the latter has never been used with the former, but recently, studies have attempted to apply machine learning to hedge fund data
- Using this artificial intelligence to "learn" from the information without pre-defining the financial model and then applying it to construct a sound portfolio

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## Thailand Defeats the U.S. For Having Women in Senior Finance Roles

- In countries across the world, Thailand come third behind top placing Norway and Sweden for having a high percentage of women in leading finance positions, ahead of both the U.S. and the UK
- While two-thirds of senior management and executive roles are still filled by men, 57 percent of Thailand's workforce in finance and insurance is female
- The advance in this high statistic may be because feminine traits are more suited to the field as "financial jobs require very detailed and cautious persons"

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## All That Glitters...

- Positive returns on the price of gold have been a recent occurrence in the last 50 years only, before that its value has been despondent since 1791
- Though this spike in value still does not mean it measures well when you compare its performance against bonds or stocks
- Given its low valuation and lack of diversifying properties, it is difficult to foresee good prospects for gold as a return generating commodity

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# What Goes Up Must Come Down

## Top 5 of the Week of February 27

Heading up our Top 5 this week, Aswath Damodaran—Professor of Finance at the Stern School of Business at NYU—shares his musings on dividends. Mike McDonald, writing for Dealbreaker, discusses what role active management still plays in today's investing world. And The Irrelevant Investor Michael Batnick asks what the expense of stocks will have on future returns.

Morgan Housel, a partner at Collaborative Fund, considers the multiple points of view of an investment writer and investor. And ETF.com's Larry Swedroe reveals the implications of behavioral finance studies...

## Dividend Policies Need to Adapt to Today's Market

- For many companies, paying out dividends happens with no care and attention, odd, since it is the dividend payout which completes the investing cycle
- Beginning, by deciding in advance to pay out a fixed sum of money as a dividend is a backward approach, as the decision should surely come after based on residual cash flow
- Being reluctant to adapt their dysfunctional dividend policy is an outdated stance for the modern company in today's stock market to take, as it could destroy them

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## Take The Right Passive and Active Approach

- Research has demonstrated time and again that passively managed ETFs and index-style mutual funds outperform active management
- Moving forward, investors will only truly succeed if they have a balance of active and passive strategies in their portfolios
- And to make active management work for them; they must endure extensive periods of underperformance while waiting for the right moment of turbulence where their chosen stocks may outperform

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## What Goes Up Must Come Down

- Stocks have become more expensive, and studies show the more they cost, the average drawdown on them becomes deeper too
- Whichever valuation metric you use to measure, results in the same thing; expensive markets are no place to make mistakes in
- Stocks have been rising for the last 30 years, and are pushing the boundaries higher, yet inevitably, there has to be a limit in the future where they peak and come down

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## Two Sides of the Coin

- In the various forms of financial literature out there, there is the view of the investment writer and the view of the investor
- Investment writers can offer an objective view; recognizing and exposing forms of behavior which can impede successful investing
- Investors aren't able to be as detached as this, any advice that is acted on has consequences
- Neither is more right than the other; seeking out varied and informed opinions is the responsibility of the reader

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## Recognizing the Impact of Skewed Behavior

- Studies show that of the many bad behavior traits investors are prone to, we have a weakness for gambling stocks; those with a small chance of massive returns
- This tendency is linked to "prospect theory," that we hate the idea of loss more than we enjoy the happiness of possible gain
- Ending up in those gambling stocks becoming overvalued in the market relative to other stocks—so, avoid gambling stocks altogether

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# Who Is the Greatest Stock Picker?

## Top 5 of the Week of February 20

Bobby Hoyt kicks off our Top 5 this week with his approach to ridding yourself of student loan debt as featured in the Business Insider; as learned from personal experience. Wesley Gray, editor and CEO of Alpha Architect, compares super investors; Warren Buffett and Peter Lynch. And Aleph Blog's David Merkel wonders at our current market; are we heading into the record books?

Author Daniel Solin writes about what makes us believe the lies we're told in his self-named blog. And A Wealth of Common Sense's Ben Carlson shares his guide to asset allocation for financial advisors...

## Pay Debt Off ASAP to Free Yourself

- Be aggressive about your debt strategy; don't let other people influence your frugal habits; feel good about what you're achieving
- Your debt takes precedence over everything else, and don't be dissuaded from your path by trying to keep up with what your peers are spending
- Above all else, get your head in the game; having the right mindset is the only way to clear off significantly large debt amounts like mortgages and student loans

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## Who Wins the Factor Horse Race: Warren Buffett or Peter Lynch?

- By comparing how much of the two investor's—Warren Buffett and Peter Lynch—performance is linked to one or more factors we can work out who is the "greatest"
- 7% of Buffett's 10.6% annualized out-performance is explained by factors such as low-risk, quality, and value; resulting in alpha of 3.6%
- Of Lynch's 13.7% annualized out-performance, only 5.4% can be explained by exposure to outlying factors, leaving a huge 8.3% of alpha; indicating that Lynch wins the factor horse race

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## Trading in Special Times

- If it lasts till February 27th, the S&P will have survived the longest record streak (of not losing 1% or more) since 1995
- Making today's market pretty special indeed, and inciting argument among investors that it can go no higher—but it still could
- Leaving asset allocators with low stock allocations with the most to lose; if they decide to "chase the rally"

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## All Lies?

- The biggest "lie" told by the securities industry is that it will help you achieve your retirement goals by "managing" your money
- Your broker's insights, their market timing, and "outperformance" at stock picking are not necessarily working in your interest but their own
- As investors, though, we continue to buy into their "lies" that they work hard on our behalf because if it is repeated often enough to become a part of our reality—we stop trying to figure out what is true

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## The Importance of Asset Allocation

- Up until now, investors have always been more concerned with security selection over asset allocation
- It is only really possible to achieve good allocation in hindsight, but you should always have a plan to follow for your investment process
- As a financial advisor you need to be able to explain your choices: educate, adjust, and communicate your process at all times

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# Is There Such a Thing as an Investing Edge?

## Top 5 of the Week of February 13

Will Ortel heads up our Top 5 this week by examining the underlying banking fees affecting America's unbanked. Daniel Egan, in his self-titled blog, urges us to use the power of behavioral economics as a force for good. And A Wealth of Common Sense's Ben Carlson emphasizes the importance of reason following Trump's inauguration.

The Irrelevant Investor Michael Batnick reveals that market participants might do better by learning to properly manage their wealth. And Wesley Gray of Alpha Architect examines the art and science of factor investing...

## The Cost of Banking

- Between 1.5 and 2.5% of our yearly "discretionary" income that we bank, goes to the annual cost of holding a bank account
- Or we might choose a check-cashing service, expecting to pay a set 2.01% of the check, which (if you're paid a check monthly) still adds up to a significant percentage of our money every year
- It's no wonder that 57.4% of Americans aren't banking because they don't have "enough money" to afford it

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## The Alternative Use of Behavioral Economics

- During times of stability and market efficiency, investors are—on average—fairly rational, but at other times we can act illogically
- By helping people make sound investment decisions, you can build wealth long-term rather than just making a quick buck from a short-term profit by taking advantage of them
- As well as driving sustainable profitability, it is a much more fulfilling endeavour to "nudge for the good"

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## The Trump Effect

- It hasn't been a long time since Trump's presidential inauguration, but he sure has made his mark
- Emotions and speculation are running high about the future, but you have to level this irrationality with reason because no one knows what will happen next
- To gain a higher chance of investing success in the upcoming volatility of Trump's presidency, have a well thought-out process in place for when everyone else is reacting emotionally

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## Is There Such a Thing as an Investing Edge?

- Ed Thorp proposes that the best way to generate wealth is by only making investments where you "have an edge"
- Wealthy people want funds to work for them above average, and so they will pay for strategies to achieve steadier returns to indexes
- Investors should not just diversify across their asset classes but reassess strategies consistently

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## Just What Is a Factor-Based Model Approach?

- Factor investing is rooted in the Arbitrage Pricing Theory (APT) approach; a

- model of asset pricing which looks at the relationship between expected risk and its return
- By identifying and mitigating potential risk factors, investors can create a truly diversified portfolio
- But factors act deceptively, so it's hard to explain why stocks respond as they do, so then the model must adapt and change
- Making it difficult to use in practice; artful, therefore, but not necessarily scientific

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# Cash Cows and Cognitive Bias

## Top 5 of the Week of February 6

In our Top 5 of the week, Meb Faber writes up his innovative dividend investing method for our portfolios in his self-titled blog. Vintage Value Investing's John Szramiak reveals the complete guide to all our cognitive biases as investors. And Market Fox Daniel Grioli looks into the religious fervor of active investing.

A Teachable Moment's Anthony Isola explains to us just how compound interest doesn't always work in our favor. Ben Carlson, writing for Bloomberg this time, agrees that markets are crazy, so trying to predict them is even crazier...

## "Cash Cows Of The Dow"

- Made popular by [O'Higgins](#), an old investing strategy was to invest in the top 10 Dow stocks of the year with the highest dividend yield to beat the market, known as the "Old Dogs of the Dow"
- If you update the strategy to include shareholder yield instead, as that does even better historically, you create a better approach to dividend investing
- This "Cash Cows" method also has the cheapest valuations "across all variables except P/E ratio"—which it only narrowly escapes

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## Our Brain's Shortcuts Are Not Infallible

- Our brains produce shortcuts to help us think and make decisions quickly, these are known as heuristics, and they're not always reliable which results in our cognitive biases
- Our main weaknesses are to try to filter large amounts of information,

- understand everything at once, attempt to act quickly, and make cut-throat decisions on the most important things to remember
- If we can learn to recognize when we're being controlled by them, we can act adjust our behavior accordingly

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## Active Investing Addiction

- Despite consistent, incontrovertible research that you cannot outperform the market, investors are still drawn to active investing
- The outcome of which has been the creation of "closet indexes," which look and smell like active funds to attract investors, while mimicking the fund's benchmark for the manager—minimizing their own risk to underperform
- The market is made up of smart investors and investors who can't handle the patience of a long-term strategy, and sometimes, they're one and the same person

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## The Horror of Reverse Compound Interest

- The power of compound interest can become a nightmare if it works in reverse for you as credit card debt, it can spiral quickly beyond our control
- By making only the minimum payment on a \$10,000 credit card with a 20% interest, it can take 20 years to pay the bill
- In addition, you'll spend much more than the original amount you spent on the card—these are the lessons we should be instilling in the next generation about to enter adulthood

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## The Inefficiency of Markets

- There is no way to predict the irrationality of markets because humans/investors are behind all the trades, and we're renowned for being senseless at times
- Many investors go one step further and attempt to work out when the market irrationality is going to begin or end

- Markets are crazy and inefficient, but trying to grasp and understand them is even crazier

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# The Benefits of Thinking for Yourself

## Top 5 of the Week of January 30

Heading up our Top 5 this week, Institutional Investor Angelo Calvello asks just what the analyst's role is in seeking alpha. Chairman & CIO of Ritholtz Wealth Management, Barry Ritholtz, explains why listening to experts can, sometimes, be dangerous for your investments. And Gogi Grewal, author of Sharpe Returns, delves into the strength of momentum as a trading strategy.

Larry Swedroe from ETF.com teaches us the lessons we can learn from 2016. And Jason Zweig's article, from his Safe Haven for Investors blog, urges us to be aware of the influence of others...

## Rise Above to Gain an Information Edge

- It is very hard for analysts to achieve a competitive advantage using the same quantitative research and increasingly similar methodologies as the next investor
- The truly great analysts are those who rise above and look at the bigger picture offered by all the information, and they utilize any investigative methods possible
- Just as the best advice for an investor is to be contrarian from the crowd, the same goes for analysts—be transcendent, break from the status quo

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## The Problem with Expert Opinions Is...

- ...that experts aren't always in touch with their audience and able to see things from their point of view
- Making any prediction about the future is estimation at best, there is nothing "factual" involved—opinions are just that, a perception only
- Experts aren't "marked-to-market" (a way to value assets at current market price), so there is no real financial accountability or consequence to their expressed views

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## Just How Robust is Momentum?

- When tested for robustness during different market regimes, momentum performs well; adapting fast to market changes, shorter rebalancing, and lookback periods
- When assessing the last 80 years, momentum has returned positive alpha during every decade
- Momentum survives many checks to its robustness, demonstrating that it isn't overly sensitive to adjustments in its model parameters

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## What 2016 Can Teach Us

- Despite consistent evidence that passive investing will help investors reach their financial goals, many are still invested in active funds
- Investors lose more money trying to prepare for corrections than during the event themselves, yet they still try to time the market
- Things happen—Brexit and Trump, for example—that we can't predict and affect the market in ways we can't imagine

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## Confidence Is Dangerously Contagious

- Positivity from others about their decisions can be risky inspiration for your own

- investment choices
- Sadly, we're biologically inclined to be impressionable to confident investors; despite them being a poor predictor of how markets will perform
- Rather than allowing others to influence you, be sure to undertake your own rigorous analysis before making an investment decision

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# Come in out of the Cold

## Top 5 of the Week of January 23

We kick off our final week in January with helpful advice from Cullen Roche of Pragmatic Capitalism on how to melt your assets if they're are frozen in cash. Vitaliy Katsenelson of the Institutional Investor explains that a company with a solid past doesn't necessarily have a good future. And A Wealth of Common Sense's Ben Carlson weighs in on Ponzi schemes and overconfidence.

Barry Ritholtz, Chairman & CIO of Ritholtz Wealth Management, examines active management's 2017 return. And in the third installment of Early Retirement Now's multiple part guide to safe withdrawal rates, we check out their view on equity valuation...

## Come in out of the Cold

- If, like other investors, you moved your assets into cash after the 2008 scare and are waiting for the right prices before jumping back in, you need to overcome your paralysis
- Begin by taking some stock market risk; with bond aggregate returns of 2.5% and 0% for cash, you're never going to achieve your financial aims otherwise
- Asset allocation is the key to avoiding this situation again in the future, a 100% stock portfolio is risky these days but by diversifying you can mitigate your risk

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## A Good Company ≠ A Good Stock

- Many would consider mature companies, like Coca-Cola, a worthy investment for their portfolio, but in this case, investors are paying 23 times the earnings for

- a shot at a shiny 3% dividend yield
- Sales and revenue aren't performing as they once did, sugary drinks are becoming unpopular in an increasingly health conscious society
- Beware of falling into strong global brands' shiny dividend façades—they do not shine forever

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## The Danger of Ego

- Of those investors taken in by Ponzi schemes, many will admit that their ego played a major role in failing to spot the deception
- When we fall for financial duplicity, it's often because, in our overconfidence, we fail to research properly and get a full understanding of what we're getting into
- If we're not careful and aware of ourselves, as investors, we're in danger of being our own worst enemies

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## The Return of Active Management

- Technically, active management never went anywhere, but low-cost indexing has been dominating the investment scene in recent years
- Investors have fallen out of love with active investing due to the high fees—in company with mediocre performance—and many are starting to resist market timing altogether
- Consider active investing as a change to passive, but be selective when considering the methodology, watch for increased costs, and be extra strict with yourself in terms of behavior

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## Increase Your Odds for Retirement Success

- The differences between your safe withdrawal rates (SWR) for 30-year and 60-year retirement horizons are major, and the same is true when it comes to your equity weight—there is no one size fits all for success
- Studies show if you attempt a 60-year retirement horizon with a 4% safe SWR

- and 70-80% equity weight, odds are 1 in 3 that you'll wipe your money out
- Be more conservative with your SWR (3.25%) and weigh your equity generously (100%) for a much higher probability of success

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# To Forecast or Not to Forecast? That's the Question

## Top 5 of the Week of January 16

In our Top 5 this week, we look at the various expert stances you can take for viewing the new year. Jeff Miller from a Dash of Insight questions whether forecasting is always foolish? But Barry Ritholtz, writing for The Washington Post warns us of the danger of getting involved in the January predictions for 2017. And Josh Rodriguez of Modest Money believes the market could swing either way at the moment.

A Wealth of Common Sense's Ben Carlson looks at 2017 and asks his significant questions for the year ahead. And we close with Part 2 of Early Retirement Now's multiple part guide to safe withdrawal rates—and what this year's rates mean for the FIRE community...

## Which Is the Best Forecasting Model for Success?

- Be open-minded to the different approaches to successful investing, many people may find a profitable path where others will find nothing
- Consider predictions that are risk-based or probability-based; it's difficult to pick great stocks and sectors, these are the two forecast types that offer value
- Many investors declaim the use of forecasts and models, but there is a place for them if they're the exception to the rule as above

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## Avoid January's Stock Market Guessing Game

- It's common at this time of each year to attempt to predict how the stock market will play out in the coming year
- Alternatively, look at the possible trends which may affect your portfolios, the economy and global markets, then look to their historical precedent to determine what to do
- This is true of politics (the President has no personal influence on the rise or fall of stocks), selling everything (this has rarely been a good move in any January before), and valuations (the key will always be diversification)

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## Bearish or Bullish Times Ahead?

- In the global stock market, 2016 saw us open with decline, improve greatly in the middle, before finishing on a firm position
- Bullish views argue that in 2017: Trump will have a good influence on the market, oil will advance in gains, and that recent positive global economic conditions will reflect well too
- The bearish stance is that Trump will trigger decline, oil won't recover but will plummet, the global economic situation is short term only, and that 2017 will bring economic hardship instead

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## A Few Questions for 2017

- **Will Trump as President manage to alarm the market?** Maybe yes, maybe no—his behavior is too unpredictable to guess
- **Will emerging market stocks shine?** After lengthy underperformance, 2017 could perhaps be the cyclical year for emerging markets
- **Are we due for another Ponzi scheme, fraud or fund blow up?** Long low-interest rates and above normal stock valuations have set the stage for some panicked event possibly
- There are too many maybes, perhaps, and possibilities for anything to be certain in 2017

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## 3.5% May Be The "New 4%" for Early Retirees with 40-60 Year Horizons

- Capital Preservation (CP) seeks to hold an even inflation-adjusted value by using dividends, etc., while Capital Depletion (CD), aims for a zero (or plus) final portfolio value by using gains and principal
- The upside of CP is the low shortfall risk of losing money on your investments, the downside of CP is less long-term protection against inflation
- CD allows you to withdraw more than CP, but failure rates increase with longer retirement horizon times, adjust by 0.50% cut for a longer success rate

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# All Assets Are an Investment in Some Hands and a Speculation in Others

## Top 5 of the Week of January 9

Heading up our Top 5 this week is Ben Carlson of A Wealth of Common Sense who reflects on how investors judge performance as influenced by the 1973-74 bear market. Jason Zweig, a regular of the Wall Street Journal, asks us to be honest with ourselves—are we investors or speculators? And Collaborative Fund's Morgan Housel looks at just how dynamic brutal honesty can be for investors.

Meb Faber, in his blog at Meb Faber Research, speculates on the difference in investing trends between the US stock market and the CAPE ratio. And this week, we begin with Part 1 of Early Retirement Now's multiple part guide to safe withdrawal rates. Stay posted with us here at Become a Better Investor for more posts from these guys in upcoming weeks...

## What Historical Data Can Teach Us

- Investors evaluate historical data to optimize the strategies and assets of today, but without considering the ton of variables that would have influenced the markets then
- Before the mid-1970s measuring stock performance was fairly limited, and before the 1990s it was difficult to expand your investing strategy outside of your country's stock market
- Human nature in investors will always remain the same, but markets will always frever expand and change

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## All Assets Are an Investment in Some Hands and a Speculation in Others

- Traditionally, it's considered that an investor buys with long-term gains in mind while a speculator tries to exploit short-term price changes
- Nowadays, it's too complicated to draw that hard line down the middle—the same assets can have very different results according to the motivations and time horizon of the buyer
- The buyer can, therefore, be both investor AND speculator, for future success though be sure you keep the two strategies segregated—have a different account for your speculations

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## Enable a Smarter Culture of Honesty

- Investors will have more faith in your funds and practice if you don't attempt to hide any past errors in judgment but instead, stand up and admit to them
- Credit news sources and researchers that update their resources and acknowledge any corrections they make
- Above all, encourage a forum in your work where people can confidently reveal their mistakes to learn from failures and improve going forward

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## Go C-A-P-E

- A global cross-section of the 25% cheapest country stock markets, has only beaten the S&P's performance 60% historically
- With foreign performance being behind so considerably, it has pushed the CAPE ratio of these country stocks down to a third of the value of the US market
- Making the CAPE ratio strategy a great approach in 2016 and for the upcoming future

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## A Study of 6.5 Million Withdrawal Rates

- For those in the 'Financially Independent, Retire Early' (FIRE) community, finding optimal safe withdrawal rates for a 50/60 year retirement is paramount
- Safe withdrawal rates determines how much you can withdraw each year once you've retired before you run out of money
- Research advises on a slow transition when withdrawing income early to alleviate risk in the long run
- It's stocks long-term returns that make attractive withdrawal rates possible over the course of your longer retirement duration

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# One Portfolio Does Not Fit All

## Top 5 of the Week of January 2nd

Kicking off our first Top 5 of 2017 is the author of Basis Pointing who teaches us that winning funds aren't always what they seem. A Wealth of Common Sense's Ben Carson discusses fitting portfolios to investors—not the other way round. And Joachim Klement from Enterprising Investor cautions us against certain tactical investment techniques.

Larry Swedroe of ETF.com calls us to change our behavior as investors for better financial success. And Micheal Batnick, writer of The Irrelevant Investor blog discusses the ongoing worry investors have if interest rates continue to rise...

## Winning Funds Are Often Actually The Losers

- Of the best performing percentage, out of 680 unique funds with twenty-year excess gains, their performance lags within "one of every three rolling three-year periods"
- During these periods, investors would have spent a third of two decades watching a significant shortfall
- On average, the winning funds underperformed against the losing funds by 9 percentage points—not great results

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## One Portfolio Does Not Fit All

- When advising on the correct fund for your clients, tailor them to meet their individual specifications—one they are likely to commit to with relative ease
- Take in the academic research available but ensure that you aren't involving your

- client with a fund they don't understand and will exit promptly
- As an investor, steering away from conventional investing strategies is all to the good but have more than an offhand insight of what you're getting yourself into

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## The Shortcomings of Being Overly Tactical

- Tactical asset allocation is a strategy that involves careful monitoring of potential short-term market opportunities to optimize returns and lower risk in your portfolio
- Also known as timing the market...
- The underrated threat of this practice is that when moving away from a stock or trade, you create a subliminal aversion to comparable investments in the future
- Reinforcing our tendency to form biases—the closer you are to something (the market) the less neutral you can remain

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## Improve Your Investing Behavior

- The study of financial behavior has grown in the last 15 years as an increasing number of pricing anomalies have been identified according to investing traits
- One of the anomalies is that investors show bias towards gambling when they pick singular stocks with higher risk, as a result they also have a tendency to trade more often
- This behavior leads to stock mispricing and overvaluation, poor average gain, and has a negative affect on risk-adjusted returns

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## The Rise and Rise of Interest Rates

- Despite not being an unprecedented event—January 1941 and September 1981 previously experienced similar highs—investors are anxious about current rising interest rates
- Between that period though, nominal returns on ten-year bonds only experienced losses ten times, with the worst loss occurring in 1969 of 5%
- In terms of real return (= nominal return - inflation) 10% drawdowns happen

- way more often, demonstrating that inflation, not rising interest rates, are the true catalyst for bond returns

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# Learn the Art of Doing Nothing

## Top 5 of the Week of December 26

In the run-up to New Year's Eve this week, we kick off with Ben Carlson's wisdom on the art of doing nothing from his blog, A Wealth of Common Sense. Morgan Housel, a partner at the Collaborative Fund, discusses the neglected truths for successful business and investing. And Clare Flynn Levy of Essentia Analytics shares some simple ways to improve our investing processes with behavioral science.

Michael Regen gets the lowdown from Jack Bogle on investing in his interview for Bloomberg Markets. And Ian Domowitz explores the nuances of Quantamental Fundamentalism for Analytics Incubator...

## Do Nothing to Avoid Investing Mistakes

- Being inactive while other investors around you are trying to pick new stocks, guessing at interest rates, and estimating where company shares are going is difficult
- But by learning the art of doing nothing you can intrinsically save yourself from making huge errors
- Any portfolio move needs to be carefully thought out and considered
- The real strategy for successful long-term investing is saying no repeatedly and using a filter to help you turn down the wrong investment ideas

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## Vital Skills for Business and Investing Success

- Empathy will get you far, start to consider other people's driving factors to better understand them
- Encourage honesty, admitting you don't know something is humility not ignorance
- Don't let your intelligence be overshadowed by your ego, lack of communication, refusal to alter your perspective and inability to meet people halfway
- Accept your failures and learn from them—lose with grace

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## Applying the Lessons of Behavioral Finance

- Use a daily 10-minute review on the decisions you've made—be frank with yourself about your performance, it will reflect in your future investment decisions
- Follow a behavioral checklist whenever you are considering a trade, this will help you stay disciplined and focused—does the stock meet your particular criteria?
- Be aware of your cognitive load, by trying to absorb too much you're in danger of overload, which will impact your judgment calls—eliminate your "grunt work" with a to-do list

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## Jack Bogle's Investing Insights—“The Math Is the Math”

- Jack Bogle is the financial legend behind the first index fund dating back in 1976, a passive strategy which matches or tracks a market index (like the S&P 500)
- He argues in favor of broad market exposure, low operating expenses, and low portfolio turnover, though many investors are criticizing the passive index approach
- The market trend pendulum may swing back and forth for those in favor and against, but index funds aren't yet at the end of their cycle, they're still evolving and growing

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## The Latest Industry Fad: Quantamental Investing

- The newest investment approach to help investors deal with the twin challenges of market volatility and low growth rates; quantamental investing
- The aim is to achieve a hybrid of human insight that you would normally get from a fundamental approach, together with the quantitative discipline
- But new concepts don't always equal new comprehension, as with any new fad; always ask questions before employing the strategy

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# Is Soaring US Debt Truly Troublesome?

## Top 5 of the Week of December 19

Ben Carlson, the author of *A Wealth of Common Sense*, heads up our Top 5 this week with a look at faulty Wall Street assumptions we can make as investors. Tren Griffin of 25iq argues that only by being contrarian can we outperform the market. And Urban Carmel, writer of *The Fat Pitch* blog asks if the US debt has finally reached a tipping point.

Jason Zweig; *The Intelligent Investor* urges you to always ask questions of your financial advisor about any past performance statistics. And Cade Metz, from *Wired*, uncovers the thousands of data scientists behind the latest crowdsourced hedge fund...

## Investing Myths Debunked

- Investing isn't always about trying to find the next big thing all the time; it's about good portfolio management too; sound construction and managing your risk levels well
- Don't believe that financial jargon is impressing anyone; it's far better to convey a message simply yet effectively
- Complex strategies are not the best approach to a complex market; remember, less is more
- Past performance is not a great indicator of the future; it needs putting into context to be of help

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## Stand Out From the Crowd to Outperform

- It's not possible to run with the crowd and beat their returns at the same time
- Being contrarian isn't about doing the exact opposite of what the crowd chooses—it's about capitalizing on expectations gaps
- This gap is the difference between expected value and market price—this should be the driving motivator behind investment decisions
- Hone it as a skill to work out exactly when to be contrarian and when not to be

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## Is Soaring US Debt Truly Troublesome?

- The excessive debt of the US has become a major concern for investors; the fast rise implicates an economy at the peak of an impending disaster
- The rise is mostly due to federal government and corporate debt; this being the case, it is not a current cause for concern because they can be supported by income and assets
- Contrary to other times of economic expansion, the household debt has actually reduced
- And consumer debt levels influence on economic growth will propel the economy forward not back

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## Tempted By Past Performance Data? Not So Fast

- Backtesting is a powerful tool to use justifiably and find relationships between stocks for outperforming the market
- But essentially if you look back far enough you can find an impressive link between any two factors
- It is therefore a difficult tool to evaluate and assess its worth because "correlation isn't causation"

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## The Blind Leading the Blind

- 7,500 anonymous data scientists are the artificial 'brain' behind a hedge fund belonging to startup company Numerai
- Financial information collected by the fund is converted into an abstract form before being distributed among the scientists, so they can create better models for the hedge fund to analyze and learn from
- Everyone works from encrypted information, and they're all recruited online and paid in bitcoin—ensuring complete anonymity and data security

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# Be an Unconventional Investor

## Top 5 of the Week of December 12

In the Top 5 this week, Meb Faber kicks off with a look at the capability of the CAPE ratio on his website's blog. The Irrelevant Investor Michael Batnick compares the classic 60/40 portfolio with William Bernstein's "Permanent Portfolio" as defined in his book, "[Deep Risk](#)." And author of The Investor's Field Guide, Patrick O'Shaughnessy argues why we should bring more creativity into our investing strategies.

Todd Millay writes about the attractive investing prospect of water for Forbes. And Morgan Housel, a partner at the Collaborative Fund discusses the problem of fewer companies are going public...

## How the CAPE Ratio Can Have Value

- The CAPE (cyclically adjusted price-to-earnings) ratio is a PE that uses the average of ten years of inflation-adjusted earnings
- Imagine in gambling if you were dealt a 19 in blackjack, will you win more often by sticking with the cards in your hand or twisting for another one?
- By using the CAPE ratio, an investor can identify if a market is becoming overvalued and switch—an effective timing metric

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## An Alternative to the Classic 60/40 Portfolio

- William Bernstein’s “Permanent Portfolio” (PP) combines a quarter each of U.S. stocks, cash, long-term bonds, and gold
- In the last 35 years, the PP, could in theory, have gained you returns of 2,600% compounding at 8.4%
- Though it doesn’t compare to the returns of a 60/40 portfolio at 5,050%, the 35-year ride was a lot smoother for the PP with much shallower drawdowns
- Waiting out underperformance periods may be hard, but the PP is a much lower risk option for some investors

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## Creativity and Investing

- You’re most creative when you don’t adhere to strict rules and conventions—the most significant inventions have usually been a result of “tinkering and play”
- Perhaps only by rebelling against market concepts can we, as investors, find true alpha
- If you travel the same path as everyone else you’ll never be able to strike free and be different—strike away from conditioning and aim for a more unconventional approach

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# Are We Sailing Straight for the Next Financial Crisis?

## Top 5 of the Week of December 5

Heading up our Top 5 this week, The Intelligent Investor Jason Zweig shares his insights on the neuroscience of financial decision-making. Johnny Hopkins writes why Mohnish Pabrai is one of his favorite investors for The Acquirer's Multiple. And David Merkel looks at the GDP impact on stocks following Donald Trump's election in his Aleph Blog.

James Rickards, author of the recently released [The Road to Ruin](#), writes for City A.M. about the potential crisis we face under Trump's presidency. And Ben Carlson of A Wealth of Common Sense shares why being diversified is no fun, but that doesn't mean we shouldn't...

## There Are No Patterns Only Chance

- As humans, we endlessly search for patterns where there aren't necessarily any, in investing and life
- Our left-brain hemisphere drives us to search for correlation and patterns in the belief that we can "figure this out"
- We make stock predictions by looking for order where there isn't any—stocks are far too random and unpredictable for this to work though

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## Short Selling Stocks Is A Limiting Maneuver

- Investing guru Mohnish Pabrai believes strongly that short selling stocks has an

- unlimited downside and little benefit
- You short sell a stock you don't 'own' in anticipation of the price decreasing—you 'borrow' the stock from a broker then buy it back at a lower price (if the price goes down) and profit on the difference
- The maximum return you can ever make is 2:1 when you short sell, but the risk for loss is "uncapped and infinite," making it a fool's bet

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## Investing Reality Versus Expectations

- In the wake of the election and its agitated aftermath, many are expecting Trump and potential new presidential policies to impact the GDP, and also, stocks
- Though in the long-term, stocks should see positive influence from a growing economy, there is no certainty that a growing GDP will mean a rising stock market so good investors will stoically keep their expectations separate from reality
- Make any necessary minor adjustments as the situation pans out but remain faithful to your investment plan

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## Are We Sailing Straight for the Next Financial Crisis?

- Donald Trump is set to inherit a financial system headed straight for another global panic if the trends from history are any indicator
- To avoid this future; the whole financial system would need to be scaled down, but this would mean breaking up big banks, an unlikely outcome
- Crises in the past (1994, 1998, and 2008) have each required more drastic intervention to overcome them—the world will watch Trump's administration with interest to see how it survives the next one

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## "U.S. Stocks Have Slaughtered International Markets...

- ...throughout this cycle." Making it hard to stay diversified in foreign stocks when seeing these type of returns

- Short-term it's difficult to see the benefits, but long term, over 15 years, the fund returns are comparable; U.S. +7.8% to International at +6.3%
- It's necessary to remember that there is no rationale to cycles, they can turn at any moment, so while diversification may not be fun, it's the intelligent investment strategy to take

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# A Time to Be Thankful and Take Stock...

## Top 5 of the Week of November 28

Kicking off this week is our [Top Blogger of 2016 Ben Carlson](#), author of *A Wealth of Common Sense* and his take on just how bad bond losses could potentially get. David Merkel, writer of *The Aleph Blog*, writes of investing back during his childhood. And as we're seeing out November, *The Intelligent Investor* Jason Zweig looks at what we have to be thankful for as investors.

Fortune Financial's Lawrence Hamtil uncovers how long-term bonds can act more like stocks than you may realize. And Corey Hoffstein, CIO of Newfound Research asks if we should be worried about rising interest rates or not...

## Could We See 2008-Like Losses in the Bond Market?

- When interest rates rise to 3% or even 5%, investors may react emotionally—having no personal historical precedent to rely upon
- Because of this they're potentially setting themselves up to lose as much as 20%, 30% or even 40% in the bond market over the next few years with risky behavior
- Predicting interest rate movements is incredibly difficult though, and higher inflation is more likely to have a bigger impact on bond performance instead

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## Investing Back in the Day

- People used to survive on an income from interest earned from bonds

- In the 70s, bonds traded at a discount with low coupons—never over \$100—by the late 90s they sold only at a premium and with comparably high coupons
- Stocks used to be measured by dividend payout ratios but now we measure a company's performance by their free cash flow
- Now, dividend stocks are the favored trend of the moment but rising interest rates make them arguable as a source of ongoing significant income

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## **A Time to Be Thankful**

- With Thanksgiving just behind us, it's a good time to take into account of what the market has blessed us with; the S&P up by 10% and low costs of investing
- Back in 1992, 8% sales commissions were charged for mutual funds, with annual fees at 1% of assets
- Nowadays, exchange-traded funds can be bought commission-free, with annual fees of 0.03%—the costs of buying and selling stocks are near zero

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## **Long-Term Bonds Exhibit Same Degree of Volatility as Equities**

- It may shock investors to discover that bonds aren't the "risk-free investments" they believe
- Both long-term and intermediate bonds show similar negative parallels as the S&P over the last 35 years, ending December 2015
- Investors in long-term bonds have weathered similar equity volatility for only marginally better returns and less diversification gain than intermediate bonds

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## **Investor Concerns and Interest Rates Are on the Rise**

- The recent leap in 10-year US Treasury rates during November from 1.83% to 2.36% has stirred worry among investors
- Though some find comfort in the fact that rates have returned to where they were at the beginning of the year, many don't
- Despite some effects on short-term profits or losses, long-term investors will

- not likely be impacted by rate changes that occur during the overall lifetime of their investments

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# The Problem with Reading Too Much into Correlation

## Top 5 of the Week of November 21

Kicking off the Top 5 of this week, Corey Hoffstein—CIO of Newfound Research—shares his highlights from the recent Ritholtz investing conference. Our [Top 5 Blogger of 2016 A Wealth of Common Sense's Ben Carlson](#) looks at how private equity funds are the new hedge funds for trending investors. And [No. 4 Top Blogger of 2016 The Reformed Broker Joshua Brown](#) discusses the relationship between stocks and the dollar.

Katherine Burton from Bloomberg View uncovers the latest and greatest moneymaking machine. And Jason Zweig, author of The Intelligent Investor blog explains how the universe is simply designed against us...

## 4 Key Investing Lessons

- Our behavior is the biggest influence on our investments; it decides the differences between our ideal theoretical portfolio and our real one
- Decide if you're playing to win or to lose; not knowing your own mindset when investing can impact your returns strategy
- Here's no such thing as passive over active; it's the choice of how much and what you want to pay for instead
- The way we view our portfolio performance can dramatically affect our decisions; consider every angle for a broader perspective

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## Avoid Disappointing Future Results From Private Equity Funds

- Today, there are nearly \$3 trillion in assets under management in private equity funds—an increased growth from the \$400 billion there were in 1999
- Investors love the idea of these funds due to the promise of higher expected returns from the illiquidity and leverage they take on board with these investments
- These type of funds are not open to all investors due to capacity constraints, and their results aren't all they're cracked up to be
- With uneven cash flow and huge spread over the best and worst performers

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## The Problem with Reading Too Much into Correlation

- Though stock prices can be influenced by the US dollar both beneficially and adversely
- Taking a bullish or bearish position based on analysis of these correlations would require you to "get a lot of stuff right that you probably can't"
- Inherently, there is no long-term danger from the US dollar on the stock market

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## “The Blackest Box in All of Finance”

- The Medallion fund is shrouded in secrecy, but known to be only open to the 300 employees of Renaissance, the company behind the fund
- With recorded returns of \$55 billion in under thirty years, it is 20% more profitable than it's competition and has achieved these results in a shorter time
- The largest draw down the fund has experienced over a five-year period was 0.5%

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## The Destructive Path of Murphy's Law

- If you always factor in the financial tenets of Murphy's Law as an investor, you

- can only go so wrong
- As it applies to finance, Murphy's Law is essentially that trends will always reverse; both good ones and bad
- Instead of trying your hardest to find the one long-shot investment that beats the fifty-fifty odds of defying the market, focus on what you can control
- Concentrate on keeping your portfolio diversified, avoiding high costs and taxes, and bypassing short-term trades

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