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Surprise – For Better and/or Worse

2016: A Year of Surprises

Two words summarize the surprising tone of the 2016 markets: Trump and Brexit. If boiled down further: unpredictable. Nevertheless, by year's end, most investors were reasonably content with the markets' results, even if they were not pleased with the ride to get there.

To start off the year, the market promptly fell over 10% by mid-February and few were thinking the market would end 2016 with a worthwhile gain.

However, the market recovered from its cold winter downdraft by springtime and was generally flat over the summer, with the exception of a strong July. Preceding July's strength, the markets had to fight off the negative effects of the surprising Brexit vote in late June. Markets around the world fell notably the day after the vote yet many recovered within a week. For 2016, it was clear 'normal' was out the window.

In autumn, as the election drew near, the markets trended downward but then back up when the 'safe' choice for President (at least in the market's mind), Hillary Clinton, seemed poised to win the White House.

When the surprising reality hit that Donald Trump was the winner, the overnight markets panicked. Nevertheless, by the time the NYSE opened Wednesday morning, the market was flat and then generally moved up from there.

None of these results were widely expected as the surprising news unfolded week after week. This should remind all of us that relying on prognostications is unwise. Instead, plan on only the long term benefits of investing and acknowledge to yourself that the shorter term direction can only be predicted simply by chance.

What's Next? Predictable Headlines

When the market is trending upward, as it has for quite a while, any downdraft is eyebrow-raising, bringing out stories and opinion pieces about 'there's more pain to come' and 'all the signs were there' in I-told-you-so articles.

The reality is that no one knows what's coming next and all the guesses (and related headlines) are just that. If you predict a big market turn correctly, it's generally the equivalent of picking the right numbers in a lottery – you're not all-knowing, but simply lucky.

Remember Meredith Whitney? She was the little-known Wall Street analyst who became a star by accurately calling out Citigroup as overpriced in 2006 and predicting the financial crisis of 2007-8. As a result, she was given her own hedge fund to showcase her prediction skills. Of course, her big predictions since then have not panned out and when a major investor asked for its money back recently (apparently due to poor performance), she closed her hedge fund.

The takeaway is not that Meredith Whitney lost her predictive skills, but that her skills were not great to begin with. That makes her normal, like everyone else. The idea that there are some market observers who are prescient is a false notion.

Thus, when the market does turn (and it will), don't take the scary articles and predictions any more seriously than you should take the optimistic articles currently. Instead, realize and factor in the following: stocks will likely do well for you, but only consistently over long periods of time (ten years or longer). Markets rise and fall in the meantime. We've generally been in an 'up market' phase since March of 2009, so we're 'due' for some kind of pullback. The issue is we don't know when, how strong, and for how long this pullback will occur. That's the 'price of admission' in the investment world and why we all don't put every dollar in the stock market. And that's okay. The formula for success is still there, but likely best for the long term minded.

Hits and Misses

As I review my opinions and takes during the past year, I see some accurate calls and at least one big whiff. When 2016 began, oil prices were very low (from recent standards) and many experts believed they'd go lower. I suggested, instead, that oil prices would likely trend back up sooner rather than later.

My big miss was clearly Valeant Pharmaceutical. Though Valeant had fallen over 70% when I bought in, it first bounced up a bit after purchase but it ultimately has fallen further. I'm not sure what I'll do with Valeant (keep or sell), but since I bought only a moderate amount (only about 1% of the portfolio), Valeant can't torpedo the Phoenix Pfund's results on its own. This is a key to investing – managing your risk on the downside as well as looking for the upside. The real problem some investors had with Valeant is they bought too much of it and thus had too much risk. Investors need to factor in that they will be wrong at times.

Platinum-Plated Problems

It seems every few months, a well-established firm is found to be doing something very, very wrong – from bilking their customers to breaking the law (with such frequency that perhaps we should just plan to feature one each quarter).

One of the most recent examples is the billion-dollar hedge fund Platinum Partners. This well-established, once-respected fund's leader is being accused of both bribery and running a Ponzi scheme.

He lived the high life and flew friends in a Gulfstream to beach parties and ball games. He wanted to impress upon people how well Platinum was doing. One observer mentioned in the *Wall Street Journal*, "If you have (a lot of money), people perceive you to be a genius." In this case, all wasn't what it seemed.

The fund had one of the best records in the industry and didn't lose money for a number of years, even when other markets went down. In fact, one of their funds had only ONE down month in eleven years. Is this too good to be true? Does it sound familiar? Madoff –like perhaps?

Platinum was too good to be true. Apparently they inflated fund performance numbers by doing what I've previously commented on regarding some alternative and esoteric investments: self-reported estimated values of Platinum's hard-to-price assets (called 'level 3' assets), of which they had many. They padded their own scorecard to their investors' detriment.

In reality, one of their big investments filed for bankruptcy in October and another large investment soon was in similar danger. Ultimately, Platinum itself recently declared bankruptcy…in the Cayman Islands, where they based themselves, even though their offices, homes and many clients are mostly in the New York City area. I sure get the idea that the Cayman location was solely for tax and legal benefits for Platinum and not for the benefit of shareholders. Nice.

Brian Weisman,*CFA, CPA, CFP, CMA*

(734) 665-1454 brian@columbiaasset.com