STOCKBOY

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Who Doesn't Like Boat Names?!

Unusual Times…..for Now

GDP (gross domestic product) growth is a key factor in the health of the U.S. economy, though it's not something a lot of people pay close attention to. Even if you don't know or much care about GDP, I think you'll find this fact interesting: United States GDP growth has been less than 3% each year for the last 10 years. The only other time annual GDP growth has been less than 3% for an extended period was for (only) 4 years at the beginning of the Great Depression!

It's worth noting when a statistic is compared to the Great Depression and then easily eclipses it. It's hard to say what this means for the markets and economy, but this unusual statistic shouldn't be ignored.

The stock market has been on a huge roll for quite a while and has gone up every year since 2009 (as measured by the S&P 500, including dividends). That's currently the 2nd longest bull market run in U.S. history. Further, the stock market has only gone down one year (2008 – a big, big fall) since the end of 2002. Thus, again, we find ourselves in unusual times.

Besides the market's direction, the other characteristic we've seen is lack market volatility. Despite world headlines so far in 2017 (from Washington, to North Korea, to Russia to the Middle East), stock market volatility is currently at record lows. In fact, the end of the 2nd quarter experienced the lowest market volatility in 20 years.

A market observer commented in *Barron's* that it's impossible to say that the last month's news headlines have provided the most benign market environment in the past 20 years. Thus there is a disconnect between the stock market and the news of the world. The question becomes: when will this change and what does that mean for the direction of the market?

I believe it makes sense to be reasonably conservative in this environment, and that's why the funds in this newsletter hold between 5% and 70% cash (Income Fund holds about 5% cash, Stockboy 15%, Contratech 40% and Phoenix 70%, all for future opportunities).

Simple vs Complex

Jordan Spieth took the golf world by storm in 2015 – winning the first two (of four) major tournaments of the year and contending for the other two, while still in his early twenties.

In a sport that requires great mental fortitude, it's interesting to see what works and what doesn't. Many golfers overthink things and are always trying to tweak their game. Though this can be effective at times, it also has problems. Many believe Tiger Woods overanalyzed his game, making swing changes and switching golf coaches to the detriment of consistency and familiarity. Though injuries and personal problems clearly impacted his game, it seems 'above the neck' issues hit him too.

Pro golfer Brad Faxon observes that many pros look for information and analysis that results in more complication; Spieth, instead, looks to make his golf approach increasingly simple.

Golf and investing have a lot in common. Reducing the complexity of your investment approach will work to your advantage. The Warren Buffett approach is ultimately rather simple, at least in theory – keep turnover small and buy low, sell high. However, human behavior often short-circuits keeping on this track. Yes, like Spieth and golfers in general, not every month or year will go well for investors. Though Spieth had a disappointing 2016, I'm confident he'll do well for years to come because he's not only talented, but he's also patient and keeps things simple. Your investment approach should have the same long-term perspective and style.

Boaty McBoatface

Human behavior is a major force in the stock market, particularly during times of extreme optimism and pessimism, as I've discussed many times before.

Human behavior vexes those in any field who don't consider it. The British government, to offset bad press for spending a vast sum on a new research sea vessel, decided a public contest to name the ship would drum up interest and excitement for it in this country whose nautical history is second to none. The contest was simple: the name with the most votes would win. Unfortunately for the British government, they did not expect people to call their bluff: the internet viral name sensation that tallied the most votes was none other than 'Boaty McBoatface'.

The British officials, unwilling to go along with the will of the public (determining the name to be too silly), instead named the new ship 'RSS Sir David Attenborough' – yawn.

To somewhat appease the many upset voters, they did name a small robotic submarine Boaty McBoatface. As an update, Boaty McBoatface just completed its first research mission and came back with 'unprecedented data', thus the name and legacy, and lesson, lives on!

Retirement Planning Hazards

Pensions have generally faded from corporate America, except for the occasional pampered retired CEO (since they don't get paid nearly enough while working nor with their severance payouts). In the late 1970's, Congress determined the 401k (or its equivalent) would fill the huge gap as they placed the responsibility of retirement planning on the employee. There are certainly many viable reasons for this shift. However, the idea that 401k's will effectively carry the retirement burden of most Americans is deeply flawed. Employees usually have little knowledge of markets and investing, and asking them to make significant decisions about their retirement investments as full amateurs seems unwise to absurd (as a non-physician, I wouldn't want to have to write my own prescriptions in retirement).

Even if you ignore the problem of making the masses in charge of their retirement investments, there are larger issues at hand. A recent study noted that less than half of private sector employees are even covered by an employer-sponsored pre-tax retirement plan such as a 401k. I suppose if you don't have a retirement plan, you can't make bad investment decisions within it, but clearly that misses the biggest point: the U.S. working population is becoming less and less financially equipped to retire in coming years.

80/20 Rule for Health Care

A recent study determined that just over 80% of healthcare money is spent by roughly 20% of Americans – often on patients' last year of life. Regardless of the healthcare wrangling in Washington, this statistic should be factored front and center with whatever solution is adopted. You don't need to be a doctor or politician to see that focusing efforts on reducing costs related to last year of life would be a good place to start!

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