STOCKBOY

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Summer Shenanigans

Brexit, Stage Left!

The results of the recent Brexit vote stunned many, perhaps as much by how we found out about it as how the vote went. Running up to the election, and even during election day, the 'stay' votes were the assumed winners. English bookies, known for their accuracy, gave 'stay' a 90% chance to win. Thus, when 'leave' was announced the winner over night, it took most everyone by surprise. Investors hate negative surprises. Markets around the world fell dramatically the next day (Friday) and then again Monday. However, with a bit of reassuring news and some less-panicked analysis and thought, many of the markets surprisingly reversed in a matter of a few days.

This Brexit downdraft and upswing illustrates the market's strong reactionary tendencies. It shows where steadfast investors can make a difference by not selling or even looking to buy during such overreactions. Anyone who claims the markets are fully efficient (where market prices reflect all known news) would have a difficult time explaining the market's behavior and pattern those few days – instead, panicked overreaction and dramatic price swings were the themes.

A willingness to step into the fray when other investors overreact and run away can be very profitable to contrarian investors over the long term. Since the markets, at least in the U.S., have generally moved upward since March of 2009 with only minor set-backs along the way, contrarians have found it difficult to differentiate themselves from the rising market. However, this environment will change and contrarians will again have the upper hand.

Advisors Behaving Badly

Last quarter, I wrote about the new fiduciary standard and how it's very sensible to enact because, as advisors, it's obviously prudent to adhere to the concept of placing client interests' first. Of course, common sense is often ignored.

A recent study by two business school professors at the Universities of Chicago and Minnesota found that 7% of financial advisers have been disciplined for misconduct by FINRA (Financial Industry Regulatory Authority). If 7% have been found to have done wrong by their clients, there are certainly plenty more that haven't been discovered but are doing the same. Thus, the percentage of wrongdoers in the financial advisory business is certainly north of 7%. That's a disturbingly high number and should sound an alarm for the industry. The largest representation of this 7% came from the annuity industry. This arena has long been an environment of hidden fees, heavy change restrictions and is prone to inappropriate sales.

It should be no surprise that the annuity industry has been one of the loudest voices opposing the new fiduciary standard. There are certainly good and honest advisors in the annuity business, but it's difficult without the fiduciary standard for consumers to differentiate those advisors looking out for the client's best interest from those focusing on making a highly profitable sale first and foremost.

A telling statistic in the study was that many of the disciplined advisors fired from their firm found work rather quickly at other firms. Why are they rehired? Because these advisors typically generate big profits for their companies. Apparently the clients' well-being is a secondary issue for those firms hiring disciplined advisors. Caveat Emptor.

Do They Know They Were Punished?

Raymond James just announced they will pay the Vermont Department of Financial Regulation almost $6 million for their part in a large fraud scheme. Though Raymond James paid this big sum to the regulators, they didn't need to admit guilt but instead remained silent on the matter. Of course, who pays $6 million when they are innocent? Though Raymond James was mute in court, they did make a public statement, which sounded more like they were accepting an award rather than a punishment: "We are pleased to have reached this settlement with the state of Vermont. Raymond James has a sustained history of conservative long-term focused management with an emphasis on putting clients' interests first…" Is this an appropriate comment for a firm just was fined $6 million? Is this a time to pat themselves on the back? I don't think they get it and I wouldn't be confident as a client by their take on the matter.

Human Nature – Michael Phelps

In the summer of 2013 *Stockboy*, I wrote that Michael Phelps would likely come out of retirement and compete again in the 2016 Olympics. Why? Human nature is such that it is very hard to leave when you're on top and know you can still be the best. Human behavior should be factored in to most things, including investing.

Olympic Choices

As the Rio summer Olympics draw near, some star athletes are choosing not to go – often citing concerns regarding the Zika virus. The no-show stars are skewed heavily toward men's golf. Why? I don't think it's really Zika. My take is they get paid a lot of money to participate in their sport at home and not the Olympics. Further, and importantly, pursuing an Olympic medal is not that big of a deal to them or their sport.

I believe that any sport where the pinnacle is not an Olympic medal should NOT be an Olympic sport. Olympic organizers, not a group that has been worthy of much praise over recent decades, seem to have made another mistake by bringing golf back to the Olympics this year after a 112-year absence. Somehow, I think money was the basis of the decision to bring back golf in the first place, and if money is the motivation, often compromised decisions follow, as we've seen time and again in the business and investing world.

Olympic viewers watch swimming, track, gymnastics and other sports they may otherwise rarely watch because they know the Olympics are the primary focus of these athlete's dreams. Most have worked the majority of their lives toward a few minutes in the pool, or on the balance beam, etc.. This is what creates drama and human interest stories.

These athletes, though certainly just as worried about Zika as star golfers, are quite willing to overlook those concerns to pursue their dreams. Rory McIlroy, among the top 4 golfers in the world who all declined their Olympic invitations, perhaps said it best recently when he said he might not even watch Olympic golf on TV. Rory said instead he would watch sports such as track and swimming – "the stuff that matters."

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