Staying On The Sidelines: Asset Allocation Daily

Jan. 11, 2019 8:38 AM ET

SA For FAs
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Summary

Franklin Templeton Investments: The utilities industry maintains the ability to continue to expand dividend growth for years to come.

Tom Lydon: Factors have routinely outperformed the market, but that outperformance has decayed over the past decade.

Thought For The Day: An investor with a history of (or thoughts of) staying on the sidelines is exactly the sort who should consider engaging a financial advisor.

Utilities

“We think earnings and dividend growth for utilities seem to be safely locked in a band of around 4-6% annually over the next five or six years” (Franklin Templeton Investments)

Factor Investing

“Viewed broadly, factors have routinely outperformed the market since 1989, as a substantial body of academic research indicates…Over the past decade, however, "smart beta" seems less "smart" and more "beta".” (Tom Lydon)

Brexit

“As Parliament looks set to vote down Theresa May’s Brexit deal, time is fast running out to find and implement an option that lawmakers can rally around. One way or another, it’s looking more likely that the UK will be left with no choice but to apply for an extension to the Article 50 period” (ING Economic and Financial Analysis)

Thought For The Day

As in any profession, some financial advisors are outstanding and some are mediocre. But one thing that both of those types have in common is that they generally follow a process that involves having their clients invested in the stock market. That is a not insignificant advantage when considering that those who remove themselves to the sidelines tend to miss out on the gains that stock-market investing generates.

This thought occurred to me based on my discussion, in a podcast published yesterday, with U.C. Berkeley behavioral economist Shachar Kariv. Most of the conversation reverted time and again to financial advisors, even though I didn't intend it to; that's where he brought the conversation, seemingly assuming that that is the more effective way to invest. (I intend to ask him this directly in a future podcast.) I am certain that many investors can get by just fine without professional assistance, but I am equally certain that another large cohort is bound to do very poorly on their own, and the difference between them is based not on intelligence, but on personality. Some of the smartest and most investment-savvy people are included in the latter group.

One of the things that Shachar discusses (and which makes me esteem his perspective) is that he recognizes that investor personality differences are real and impactful. He makes a case for the most fearful investors to stay on the sidelines, "but only for a short time." After this brief time-out, he argues that advisors should encourage investors with a low tolerance for risk, loss and ambiguity to "jump into the market," even during a period of instability, if their time horizon is long enough.

When I opined at the top that both good and mediocre advisors have something in common, my sense tells me that a large number of readers answered to themselves that that commonality is excessive professional fees. And yet one can roughly calculate (depending on asset size) that if a brilliant, investment-savvy investor makes but a single mistake of sitting out the market and thereby missing out on a 20% move, he has thereby forgone a lifetime's worth of advisory fees. And so, dear investor, if you have ever or might in the future stay on the sidelines, you are a candidate for engaging a professional to partner with you in the management of your wealth.

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