



July 21, 2017

## Truth Hurts

By Alan Snyder

Or, it is all fake news. In 1710, Jonathan Swift said, “Falsehood flies and the truth comes limping after.”<sup>1</sup> He might have been commenting on the way many investors characterize their results. Three pieces of research on this subject startled us, yet provide a wake-up call, demand reflection and spur actions for our portfolio management.

- The composite global portfolios of family offices returned 0.3% in 2015, down from 6.1% in 2014 and 8.5% in 2013, according to a report by Campden Wealth Research and UBS.
- Forbes, in a 2014 article, provided additional data: Dalbar’s Quantitative Analysis of Investor Behaviour (QAIB) notes that the average investor in a blend of equities and fixed income mutual funds garnered only a 2.6% net annualized rate of return for the 10-year time period ending December 31, 2013, with 20 years at 2.5% and 30 years at 1.9%. Fixed income portfolios didn’t even break 1%.
- Institutional investors weren’t the “bee’s knees” either, but did significantly better. Yale University’s high performing endowment produced an 8.1% annual return in the 10-year period ending July 30, 2016. State pension plans earned a median 6.8% over 10 years ending June 20, 2015 with an average of 1.6% for the first half of 2016. Problematically, pension plans typically assume that they will earn 7.5% over time. They must measure time differently than the rest of us. In fact, many use a 30-year horizon but even then, can be far behind their bogie.

Perspective: Several years ago, on a transcontinental flight, my seatmate regaled me about his spectacular investment performance. He said that he wouldn’t get out of bed for less than a 25% return. Being churlish and wanting to sleep, I volunteered to invest \$5 million with him if he could validate those results. After some sputtering, the balance of the flight was delightfully peaceful. The moral of this is to ask ourselves how long it takes to double our money. The “Rule of 72” is a rough approximation, dividing 72 by the annual rate of return for the answer. If a 25% return, then only 2.88 years to double – wow. What has kept most of us from doing better?

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<sup>1</sup> Swift, Jonathan, “The Art of Political Lying”, *The Examiner*, November 9, 1710

Researchers have identified four characteristics that can contribute to poor investment performance:

1. Emotion
2. Impatience
3. Herding instincts
4. Endless switching

Angela Lee Duckworth in her book, “Grit: The Power of Passion and Perseverance” offers counsel. Persistence driven by passionate interest is the most winning combination, usually eclipsing raw intellectual horsepower in her Character Lab studies. Ben Franklin, liberating a phrase from the 16<sup>th</sup> century, and in his own pithy way adds depth, “diligence is the mother of good luck.”

Is superior portfolio performance impossible, a chimera, a red herring, a dream or unachievable? We see Angela’s and Ben’s advice as key. We are the drone bees. Channeling Angela and Ben, we have fulminated endless lists of sourcing suggestions, evaluation questions and after-the-fact analyses to sharpen the pursuit of great investments. Hard work is the anodyne: steady returns, modest risk and time both compound our money and safeguard principal. The recent economic backdrop provides perspective. Interest rates for 10-year treasuries have slowly declined since 2013 with a slight bump up in 2017, hovering around 2%+. Inflation over a similar time period has approximated 1.5% with a modest uptick in 2017. Equities have done extremely well, albeit have approached record P/E multiples making the risk/reward balance challenging going forward.

While spectacularly unflashy, we would suggest that an alternative lending portfolio investment, without leverage and of short duration can be a vital component as an anchor to windward and can yield more than two and half times 10-year treasuries.

## Upcoming Events

See attached schedule of industry related events at which Shinnecock will be sharing more in-depth information and let us know if you’ll be attending so we can look for you!



## Upcoming Events

Shinnecock will be in attendance and Alan Snyder will be speaking at the following events. We'd be happy to have you join us!

**September 17-19, 2017** – Dana Point

Context Summits West 2017

Monarch Beach Resort

1 Monarch Beach Resort N., Dana Point, CA 92629

For information and registration: <https://contextsummits.com/west/>

**November 12-14, 2017** – Austin

Context Summits Texas 2017

Fairmont Hotel/Austin Convention Center

Convention Center, 500 E. Cesar Chavez Street, Austin, TX 78701

For information and registration: <https://contextsummits.com/texas/>

**January 31 – February 2, 2018** – Miami Beach

Context Summits Miami 2017

Fontainebleau Hotel

4441 Collins Ave, Miami Beach, FL 33140

For information and registration: <https://contextsummits.com/miami/>