Hello Everyone,

NO, you can't always get what you want.

You can't always get what you want .

But if you try sometime you find.

You get what you need. The Rolling Stones

I was never much of a Rolling Stones fan. I was just a little too young when they were super popular. Plus, I was rather conservative even as a kid. Thus, I was suspicious of "hippies." Yup, I was a square.

Today's missive addresses why investors don't usually get what they want. I don't think the Stones had the S & P 500 in mind when they wrote their lyrics; but the words are apropos to a subject about which investors often have wondered.

I hope you find this report edifying.

Signed, Your-Still-Doesn't-Understand-The-Lyrics-But-Thinks-It's-A-Drug-Song Financial Advisor,

Greg

KKOB 01.13.2020 Which Way Will It Go? Part 2

Bob: So, Greg, last Friday you and I gave the bull market case explaining how the stock market could go much higher in 2020. But, before we do the bear market case, I know the S & P 500 was up 29% last year, but I don't know anyone who saw their own portfolio go up that much.

So my question is, why does there always seem to be such a big difference between what Wall Street says and what people really get?

Greg: Great question. Well, part of it is fees, but if you got 28% vs. 29%, you wouldn't complain.

Here’s a bigger reason.

Bob, as you know, the S & P 500 represents the 500 biggest US publicly traded companies.

Well, in 2019, two (!) stocks accounted for almost 20% of the market’s growth—Apple and Microsoft. And, if you go a little deeper you’d find the top 10 accounted for almost a third of the market’s overall gain. That means 470 stocks didn’t do nearly as well….and some were a disaster---- like Macy’s down 38%.

So, here is what happens in real life. Most fund managers try to minimize risk. Thus, they don’t want to have too much money in any one stock. Makes sense.

So, Bob, let’s pretend you’re a fund manager of US growth fund. You have a nice office, a smart staff, and your secretary brings you your latte (extra hot) every morning before the market opens.

Let’s also say you have a pool of 500 growth stocks with which to work. If you divided the risk equally, what percent would you have in each stock?

Bob: Oh great, you’re giving me a math problem at 7:44 in the morning. Well 100% divided by 500 would give me…….. ***point 2%*** for each stock.

Greg: OK. Good. But, Apple and Microsoft make up almost 8% of the weighting of the S & P 500. So, if you divided equally, you disproportionately held a lot of Macy’s stock (uh oh) and not enough Apple and

Microsoft (uh oh again). Thus, by equally distributing your risk, you were doomed you from the start.

Bob: Well, sure. But that means at the beginning of each year I must guess which stocks *will do the best and worst* in order to weight it right. That's impossible.

Greg: Exactly….which is why so many of your listeners' mutual funds made less than 29% last year.

But it doesn't stop there. You have heard me complain about cookie- cutter pie chart investing before. You know….the pie chart of stocks and bonds that shows up on everyone's statement each month.

The problem is, pie charts pivot off *past performance*. Well, back in the day when interest rates were 8% or 9%, having a big part of your pie in bonds made sense. But, with interest rates at 1% or 2%---- not so much.

Bob: OK, so to recap. If part of my portfolio was in bonds at 2% -----and not enough in Apple and Microsoft---there was no way I was going to make 29% last year.

So, knowing that….why not just invest in an Index fund…forget the managers---and take what comes?

Greg: Many people have. The problem comes in the down years. And even though those come along only 20% of the time, they can be devastating when they do.

For example, if you were in a tech index in 2000 just before the dot com crash, it took you 15 years (!) to get your money back. If you were in the S &P 500 Index fund at the top in 2007, it took you 5 years to get back to even.

Bob: OK, I get it. I may not like the explanation, but I get it.   Anyway, I got you off track with the question about why I don't ever get the returns I think I should get. So, on Friday let's tackle the bear case for 2020. Until then, how do people reach you?

Greg: Yeah…sorry….and I talked too much, too. So, yes, we'll give the bear market case center stage at the end of the week.

My number is 250-3754----or go to my website at zanettifinancial.com.

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