Stay the Course

"In times of Difficulty Those Brave Enough to Stay the Course will be Victors in the End."

Coach Bo Schembechler

LCA
LINDNER CAPITAL ADVISORS, INC.
A Registered Investment Advisor

600 Village Trace, Building 23 | Marietta, GA | 30067

"Big enough to deliver, small enough to care"

by Chris Briggs, CFP®

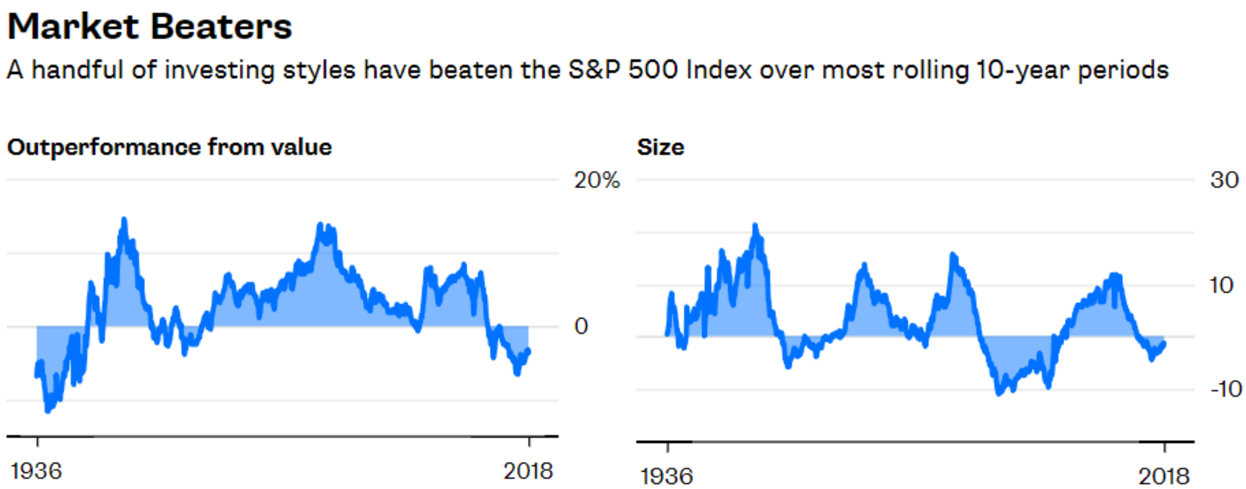
Stay the Course

If you have been reading my musings for the past couple of years, you know how I feel about how the FAANG (growth) stocks have dominated the indexes and infatuated the press. Central banks around the world have held interest rates at historic lows for what seems like an eternity, making bonds a low/ no return investment, resulting in massive amounts of money looking for any return above the near 0% offered on risk free investments. Volatility has been driven to lows for a record length of time, leading much of the investing public to believe that making money in the market was as easy as buying an index fund. I remember being told a long time ago by one of the “dinosaurs” in the office that investing was not supposed to be easy and should be uncomfortable. He repeated that if things appeared easy, expect the opposite, and was always referencing Hyman Minsky and Minsky moments. Minsky, whom I had never heard of, was an American economist who “supported some government intervention in financial markets, opposed some of the financial deregulation policies popular in the 1980s, stressed the importance of the Federal Reserve as a lender of last resort and argued against the over-accumulation of private debt in the financial markets.”[1] He theorized that long periods of stability (especially those engineered by central bank policy) in and of themselves caused future periods of instability. The more stable things appear, the greater the risks were in the system. When volatility is low and making money seems easy, it encourages risky behaviors that eventually lead to poor outcomes. Volatility should be welcomed by investors because of the opportunity it offers.[2] In fact, an investment’s potential return and the risk one assumes in buying it are related. Often the most volatile investments (the bumpiest ride) offer the highest return over time.

The return of volatility and less central bank influence are welcome changes. Higher borrowing costs and stock price volatility should reduce leverage and refocus attention on the relative price paid for an investment’s potential return (value investing). The mere lack of interest in value stocks and the attention the public and the press have given to a very few high flying names (FAANG) over the last several years peek our interest in value investing. Continuing to pour money into so few companies’ shares simply because they have “done so well” is dangerous behavior. Using factor data from Dimensional Fund Advisors for the 10 years from 2007 through 2017, growth stocks outperformed value at an average annual rate of 2.3%, (23% over the 10 year period.) Anyone who has studied financial history knows this type of outperformance does not last. Periods of growth stocks outperforming have happened in the past, even as long as this current period, but they have been followed by a period of the value premium rewarding investors. A period of underperformance for value stocks like we have just experienced should not cause an investor to question the proven outperformance of value as a driver of portfolio performance. Academic research has proven that “the larger the spread in valuation between value and growth stocks, the larger the future value premium” (outperformance) will be.[3] As you know, our portfolios overweight value, a proven dimension of investment outperformance across equity

[1] https://en.wikipedia.org/wiki/Hyman_Minsky
[2] https://en.wikipedia.org/wiki/Hyman_Minsky
[3] https://www.advisorperspectives.com/articles/2018/05/11/dont-give-up-on-the-value-factor

markets.



[4]

An additional factor we overweight our portfolios to is size. Academic research has shown that small cap stocks will outperform large caps stocks over time. Through May 15th of this year, US small cap stocks have risen at twice the rate of their larger counterparts.[5] Investors appear to have identified the benefits small companies will receive from the new tax law and the growth of the US economy. Smaller companies, whose businesses are primarily in the United States, are not negatively impacted by the rising US dollar and potential trade conflicts like companies who have big exporting exposure. These companies will be big benefactors of reduced regulation and future domestic spending. The National Federation of Independent Business Small Business Optimism Survey reached its highest level in three decades earlier this year. [6] All are very positive signs for the small companies your clients are invested in.

We encourage you to remind your clients how their money is invested and why you chose LCA and our investment philosophy. Through careful diversification with a bias toward proven factors of outperformance, LCA will continue to be disciplined and not fooled into thinking "this time it's different." LCA stands ready to support you in identifying and clarifying investment solutions specific to your client's needs.

[4] https://www.bloomberg.com/view/articles/2018-05-07/smart-beta-can-obscure-the-big-investing-picture
[5] https://www.ft.com/content/f8d877e2-577e-11e8-bdb7-f6677d2e1ce8
[6] https://www.ft.com/content/f8d877e2-577e-11e8-bdb7-f6677d2e1ce8

About LCA...

Lindner Capital Advisors, Inc. is a federally Registered Investment Advisor based in suburban Atlanta, Georgia, with representation throughout the United States. Our investment platform provides access to institutional fund strategies and exclusive money managers that are not readily available to the retail market. Our portfolios are designed to be consistent with a client's unique investment objectives, individual time horizon, and tolerance for risk. LCA has been CEFEX certified since 2006 and is committed to our fiduciary responsibility.

Ask your Relationship Manager for a copy of "The Educated Investor" written by Robert Lindner.

For more information, call (770) 977-7779 or email portfolios@LindnerCapital.com.

Visit LCA's website at www.LindnerCapital.com

LI_TRI2_201609 (09/16)

LCA

LINDNER CAPITAL ADVISORS, INC.

A Registered Investment Advisor

600 Village Trace, Building 23 | Marietta, GA | 30067

"Big enough to deliver, small enough to care"