PORTFOLIO WATCH

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Fee Only

FOMO - The Irrational Fear

As I write this I'm on a plane to Boston, and this is one of the few times I'm not flying Southwest. When I fly Southwest I can check-in early enough that I usually get an "A" ticket. It doesn't mean much, but it's better than the pathetic "C" ticket. American Airlines doesn't have the mad rush to find a seat, but they do have limited space for carry-ons, so I was anxious to board. I expected to wait for "families with small children and those needing assistance." That was fine. I was in boarding Group 2, and that sounds pretty early. Then First Class passengers got to board. Still OK, although I didn't like their smug looks. Then "executive class." Followed by Sapphire members, Emerald, Turquoise, Basalt and Gravel. Finally, Group 1, then Group 2 except those named "Jerry" (that's what it seemed like). It felt like everyone else was special and it made me wonder what it took to be a Gravel Member. I must be missing out on something.

Irrational FOMO

Fear is one of the driving forces behind investing. Fear of loss is a powerful influence, but the Fear Of Missing Out can take over very quickly, and FOMO causes us to do more irrational things. Fear of loss causes us to reduce risk, and that makes sense. FOMO causes us to listen to Jim Cramer and our brother-in-law with the "insider" stock tip. It also makes us worry every time the market goes up for a few days in a row. When stocks go up it can feel as if everyone else is making more money than us, particularly if we're the suckers with a diversified portfolio. Each day the market is up we feel like we're falling further behind, so before we end up being the only investor in the world who can't afford our own plane, we crank up the risk and load up on more stocks. This is human nature, but it's not disciplined investing.

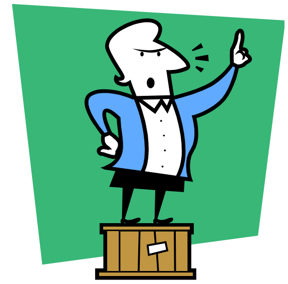
"Timing" the Market

The worst part about FOMO is that it creates a scenario where our long-term goals are less important than making money *at the same time as the stock market*. Wait…what? Obviously this is irrational, but it's almost unavoidable. Every news station lately has been barking about the Dow index hitting all-time highs. Everybody else must be raking in the dough, so the impulse is to abandon all strategy and just add risk. But by the time you hear it on the news or read it on your Twitter feed, it's likely too late. Then stocks go down for a while and the same TV experts who were strong on stocks last month begin making up reasons why stocks are going down. The job of the news media is to stoke fear. It doesn't matter what kind of fear, it just needs to be enough to keep you watching or listening.

The Ideal Strategy

What we really want is to be fully invested in stocks when stocks go up, and fully in a stable income-based fund when stocks go down. That makes sense. I want to eat pizza every day and not get fat…ter. The problem is that FOMO causes us to believe it's possible. The best strategies that work over an entire market cycle tend to have long periods (i.e. years) of under-performance. Over the last 10 years I've come to realize that there must be a balance between doing the best thing for the long-term, and staying with a strategy that investors can tolerate. A realistic strategy *needs* to make money when the market goes up, whether it's completely optimum or not. At the same time, a good strategy needs to help investors avoid selling during the panic of a Brexit, <u>and</u> avoid buying just because the market hits a new high.

Some News About Veripax



First of all, we've moved to a different office. Same building and same address, but it's a bigger office suite which will allow us to expand. Veripax is rapidly approaching $100M under management (potentially by the end of the year), and $100M is the threshold between being regulated by the state and being regulated by the SEC. SEC regulation, in turn, means more compliance hassle, Anti Money Laundering requirements, likely audits, etc. It's the price of growth, and we need to start gearing up for it.

VFM was ranked #568 in Financial Advisor Magazine's annual Registered Investment Advisor ranking. Although we're not shouting "we're number 568!", it is the first time VFM has even made it on the list. Other firms on the list have multiple billions under management and account minimums of $5M+, so I'm fine being #568 for now.

Market Comments

The "catastrophe" of Brexit came and went, and the stock market is still standing. However, there's no clear reason why the market has essentially been melting up, and that makes me a little nervous. It creates a classic case of FOMO, and I feel it too. The market has been hitting all-time highs, and there's nothing particularly dangerous about that. For the market to have long-term gains it needs to consistently hit new highs, but adding stocks in a rising market needs to be done carefully. When the number of "up" days without a single "down" day begins to make the news, that's not the time to jump in. It's easy to look backwards and wonder why we didn't buy here and sell there, but without the benefit of hindsight or a functional crystal ball, purchases need to be made on pullbacks.

There are a few interesting things about the current market that may not be obvious. One is that stocks are hitting all-time highs and Treasury rates are still extremely low, meaning that Treasury prices are also high. Typically, when investors feel good about the stock market they increase their risk exposure by selling Treasuries and buying stocks. The fact that both stock prices and bond prices are high indicates the market is not necessarily confident, and that also makes it fragile. Another thing to keep in mind is that good stock performance is not being seen worldwide. Foreign stocks still have negative returns for the year, and there is a lot that needs to be sorted out between Britain and the rest of Europe. Stocks recovered from the initial news quickly, but that doesn't mean there's nothing but clear skies ahead.

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