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PORTFOLIO WATCH

VERIPAX WEALTH MANAGEMENT

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Low Cost vs. High Value

Shortly after dinosaurs roamed the Earth, I was a waiter working my way through college. At that time, I practically lived on Swanson chicken pot pies, which have about the most calories per dollar of any food. After getting married (still in college), we decided to try to save some money and buy Banquet pot pies. Huge mistake. As a connoisseur of pot pies and with a specialty in the chicken variety, I can speak with authority that the Banquet pies were inedible. Swanson pies have white meat chicken and a crust that gets just a little crispy. Banquet brand pies have perfectly-shaped cubes of mystery meat with no bottom crust. Just because a pot pie is cheap does not mean it's a better value.

The Low-Cost Bandwagon

The financial industry has become obsessed with "low cost." Vanguard and several other mutual fund companies have convinced investors, and even government regulators, that cost is the only thing that matters. The increasing popularity of robo-advisors takes low-cost to an extreme, where you simply type in your information and the computer spits out a portfolio that is perfectly optimized…for 20 years ago. So here is my assertion, which is not a popular viewpoint among financial professionals:

Low-cost investing does not help you accomplish your financial goals. High-value investing does.

OK, I better start explaining. Can low-cost have good value? Absolutely. There are some areas of investing where it is next to impossible to add value. It's very difficult to find out something about Intel or Wal-Mart, for example, that every other investment manager doesn't know. If you do find out something, it's probably illegal to use the information. So, if you just want unprotected

exposure to large cap stocks, an ultra-low-cost fund may be the best value because there's not a lot of value to be had.

High Value Investments

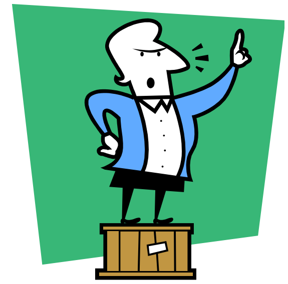
The highest value investments are almost never the lowest cost. Foreign small cap stocks is a great example. Very few analysts follow these companies, and many are still run by the original founders. The only way to get an idea of their growth plans or the quality of their management is to visit them. I use a fund in this asset class that visits over 800 companies every year. This costs money, so the fund doesn't compete based on cost. The fund adds value by doing boots-on-the-ground research, and I think this value is worth the cost. As another example, I use a large-cap fund with a 2% expense ratio. A low-cost investor wouldn't give it a second look and would probably cite a bunch of Vanguard data proving that this fund can never compete with the S&P 500. In the last 20 years, the fund has more than doubled the gain of the S&P 500. Ten years were higher than the S&P and ten years were lower, but the fund had a positive return in every year that the S&P 500 lost money (including 2008). The hedging strategies it uses have a cost, but so what? The cost clearly adds value.

Losing Focus

Determining the goodness or badness of an investment based solely on cost is pretty easy, and it's very popular. Unfortunately, by over-emphasizing cost, I think the industry has lost focus on investing's objective, which is to achieve your financial goals. What takes is high-value investments, and those take a lot more work to find.

Our New Name

It's now official, our new name is Veripax Wealth Management, LLC. This reflects the fact that we have broadened our services to include more aspects of wealth management, such as life and long-term care insurance, health insurance assistance, company benefit reviews, etc. You can think of wealth management in terms of offense and defense. The "offense" involves building a portfolio that is aligned with the financial goals of each client, and coordinating the portfolio with company benefits, social security, etc. The "defense" involves identifying the life-event risks that could derail a plan, and making a conscience decision about which risks will be mitigated and which ones we choose to live with. The key is to make these decisions on-purpose.



You may notice in the new logo that the "T" in MANAGEMENT is a little different. It's really the Greek letter Tau. It's there to remind us that our mission is to help accomplish each client's long-term financial goals. It's not to win an investment competition, or keep up with Bitcoin. If that's what someone is looking for, well That Ain't Us (TAU).

Market Comments

It looks like tax reform will be passed by Congress in one form or another. I'll admit, I don't like to pay taxes, and the idea that more money than I will ever pay in taxes has been used by both the state and federal governments to settle harassment lawsuits does not make me feel better about it. From that standpoint, I should look forward to tax reform, and I've been asked by several people about it. My feeling is that something as important and complex as tax reform should not be jammed through to meet some artificial deadline, with mere minutes to "read" and vote on a tax bill covered with hand-scribbled notes. I have no idea what this will ultimately mean for my business, individual investments, or the market as a whole. I also have no say in the matter, so it does me no good to complain or cheer about it. The market is in an uptrend so we need market exposure, but continuing to hedge the downside seems prudent. Any big bets on the market doing one thing or another is gambling. Sometimes gambling pays off, but successful gambling doesn't change the fact that it's still gambling. If you want to gamble, be my guest.

The market has enjoyed several days of a "tax rally," but as I'm writing this on a flight to Southern California, the market is taking a hit today. Interesting. I'm speaking this week at an Alternative Investments Conference, and I have three main points I hope to get across.

1) The objective of financial planning and investing is to meet financial goals. This should be a "duh," but the mutual fund industry has made it all about them (e.g. low cost, tracking the S&P, etc.). The financial advising community needs a reminder that a client's success is not necessarily tied to meeting a benchmark, especially if the benchmark has no direct correlation to their financial goals.
2) Alternative investing is a misnomer that relegates certain investments to "niche" status. Why is an unsecured junior bond considered conventional, but senior debt secured by a private company's assets is alternative? That is an enormous success of the mutual fund marketing industry, and it makes no sense.
3) Low cost is not an investing goal. High value is. That was the point of this month's article, so enough said.

This should be a fun conference.