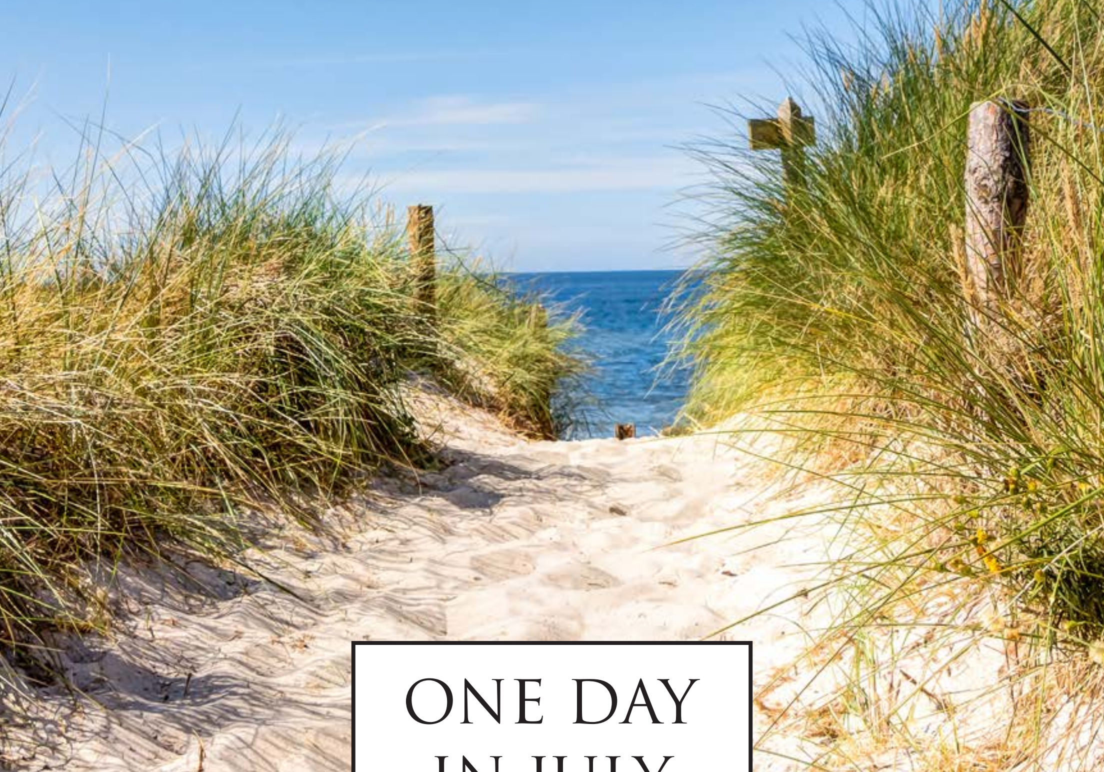
Quarterly Booklet

SUMMER 2018

"All of humanity's problems stem from man's inability to sit quietly in a room alone."

- French philosopher Blaise Pascal



ONE DAY IN JULY

Summer 2018

Issue IV

A Note from our Founder

One of the wonderful things about this Booklet, other than the fact that it's short and has aerodynamic properties that make it easy to throw into the recycling bin, is that it has no backlit screen. This means you can bring it to the beach and read it among the seagulls.

~

Even on my most creative days, I don't pretend that the compensation rates of the financial industry reflect its value to society.

From good financial firms, it may be the teaching that is most valuable.

A teacher is valuable because the lessons carry forward and compound (we do like things that compound). You can think about this in your own work - you don't have to be a formal teacher to help in this way.

~ Dan Cunnnigham

ETF vs Mutual Fund vs Index Fund

There's a lot of confusion in this area.

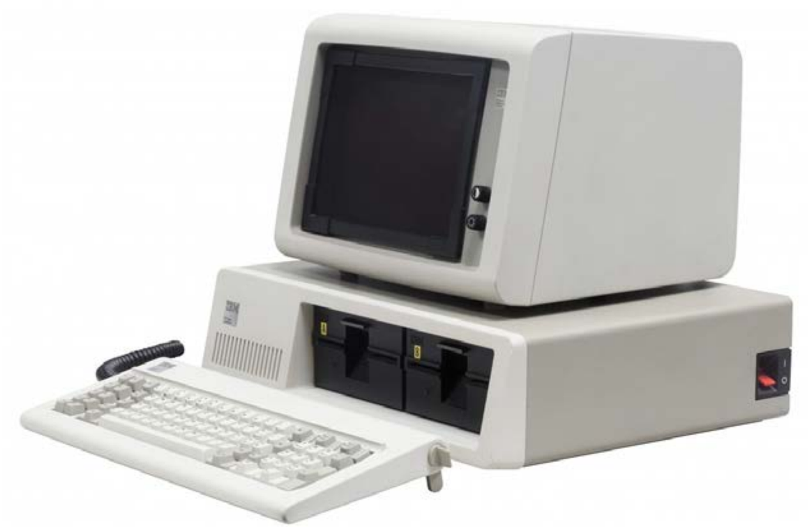
An index is a theoretical construct, made up of allocations of individual stocks. You cannot invest in it. To invest in an index, you buy a fund that follows it closely. This is called an index fund. An index fund is developed as either a mutual fund, which has a price update once a day after the markets close, or an ETF (Electronically Traded Fund), which varies in price all day while the markets are open. The returns of ETFs and mutual funds from the same provider (such as Vanguard or iShares), following the same index, are similar.

Industry specialization.

The desktop computer operating system was built on a series of hardware device drivers. Netscape was a browser built on the operating system. Google developed a website inside the browser and spurred an ocean of content. Alexa mines that content for instant, verbal answers.

An industry develops as a series of specialization layers. In a world of finite resources (capitalism), to add value, you have to understand where you fit in an industry stack.

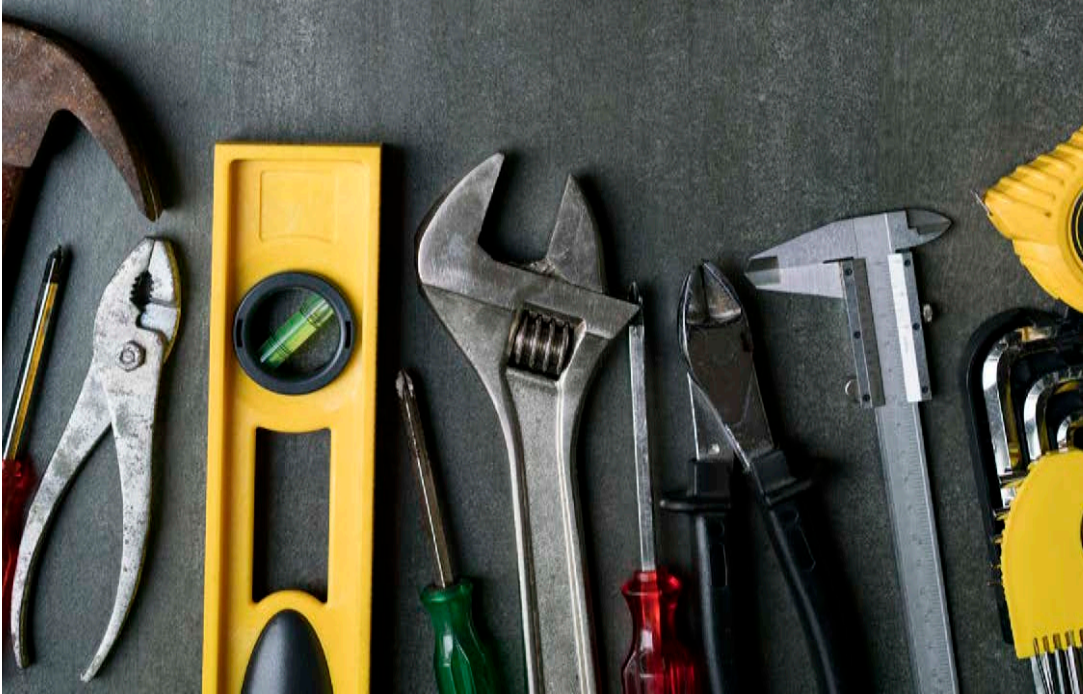
Focusing has great value. Innovation and out-performance come in part through focus.



Tools in the toolbox.

The financial industry is replete with tools - there is no shortage of products. How those products get assembled into custom solutions, however, is an area ripe for improvement. And the payment incentive structures for those people and firms creating the solutions need to be examined closely.

One Day In July selects and assembles funds from other firms into risk-adjusted models for individuals and 401k employees and rebalances them well. We act as an unbiased negotiating agent for our clients, with no incentives to make decisions other than those that are optimal for the client.



High Performer.

From 1926 through December 2016, what stock returned the most for investors? That's right, Apple.

Keep this in mind though. Had you bought the stock in the December 1980 and held it, 17 years later, in December of 1997, the price of the shares was lower than the IPO.

Apple required great patience.

Professor Hendrik Bessembinder at Arizona State University, who did this research, defines "returned the most" as "the accumulation of market value in excess of the value that would have been obtained if the invested capital had earned one-month Treasury Bill interest rates."

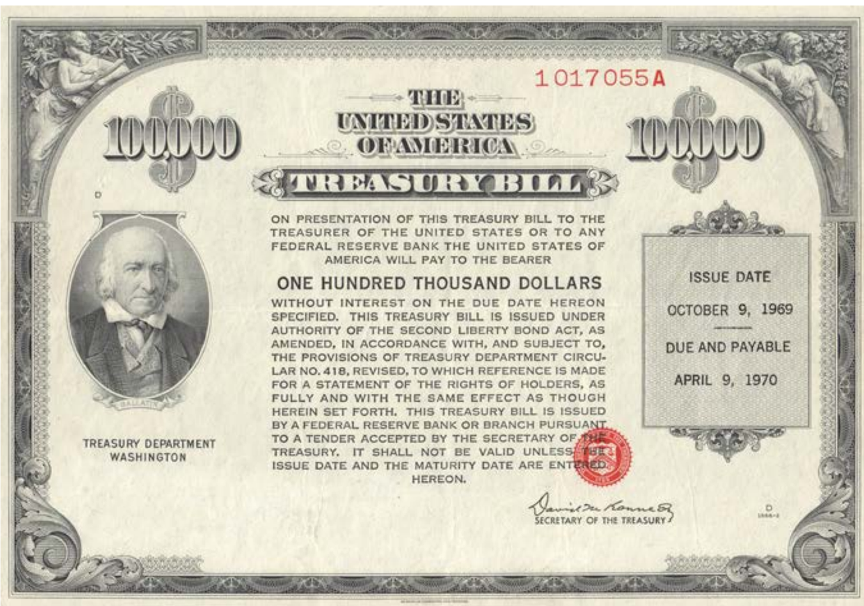
Sources: Yahoo Finance (pricing data), Professor Hendrik Bessembinder "Do Stocks Outperform Treasury Bills" SSRN, 5/28/18

But...

From 1926 to 2016, fewer than 3 of 7 stocks, including reinvested dividends, outperformed the paltry returns of one-month Treasury bills. And the one-month Treasury bill is considered to be the risk-free baseline!

And only 4% of all publicly traded stocks accounted for all of the net wealth dollar creation earned by investors from 1926 to 2016.

But keep reading on the next page...



Source: Professor Hendrik Bessembinder "Do Stocks Outperform Treasury Bills" SSRN, 5/28/18

Yet as a group...

Stocks have done phenomenally well over the same 1926 to 2016 period. Starting in 1928, one year before the 1929 crash, stocks have returned 9.5% annualized versus 3.5% for three-month Treasury bills.

Over the same time period, that result turned $1 in stocks into $3,860 versus just $22 in three-month Treasury bills. This is not adjusted for inflation.

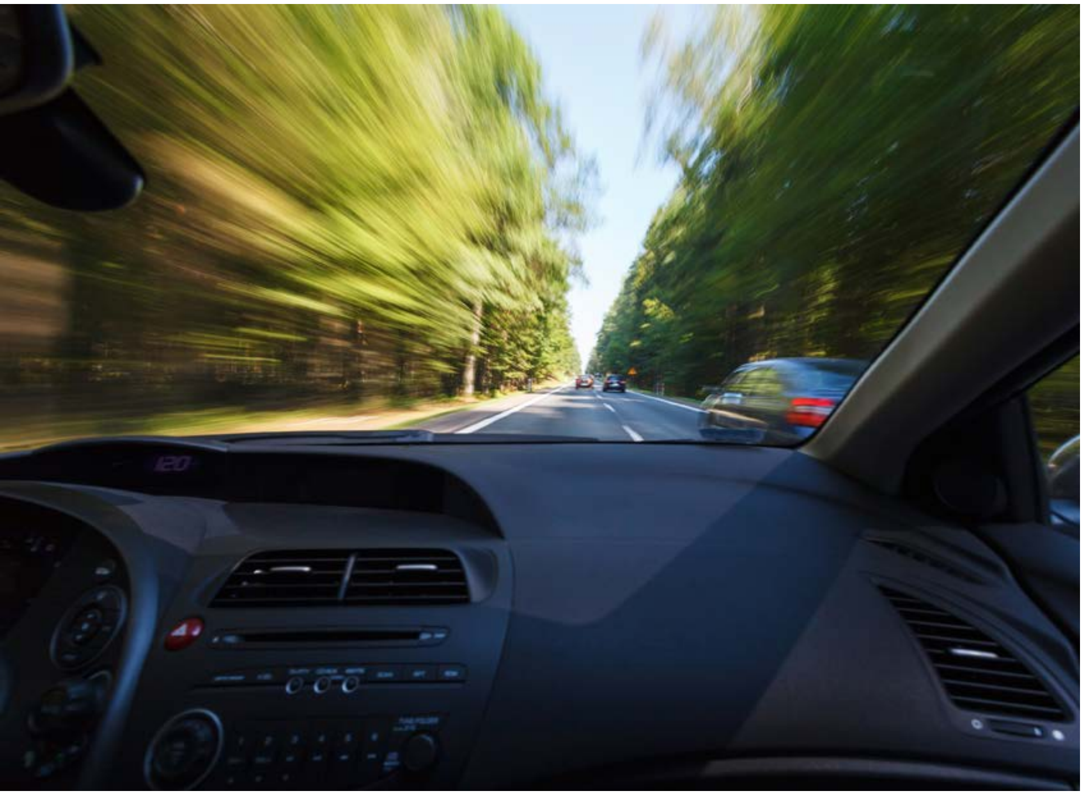
Source: Professor Aswath Damodaran, New York University, 1/1/2018

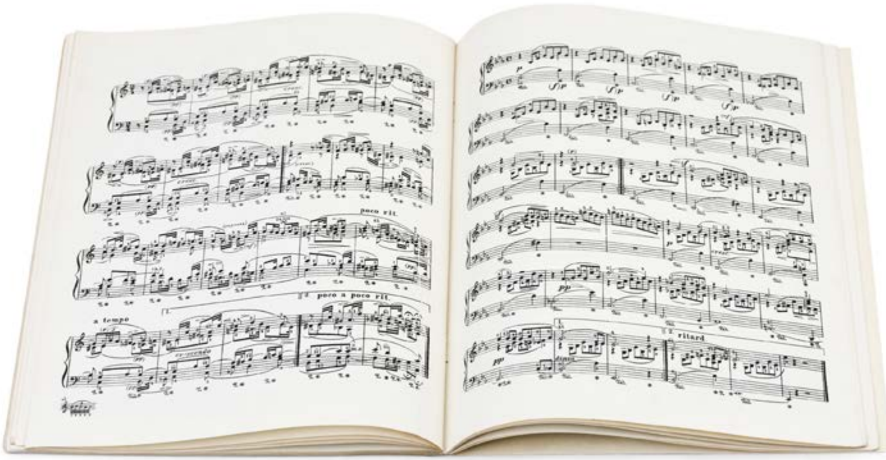
"I like to deal with people where I feel a one-page contract would do the job. If I have to have 50 pages to protect me against the guy I'm dealing with, **I'll always wonder if I needed 51.**"

Warren Buffett

Markets are forward looking.

What does that mean? Investors buy or sell shares depending on what they anticipate will happen, based on available information. There is a large incentive to be early in a trade, before other investors have realized the impact of the information. Thus there is a race to "look forward."

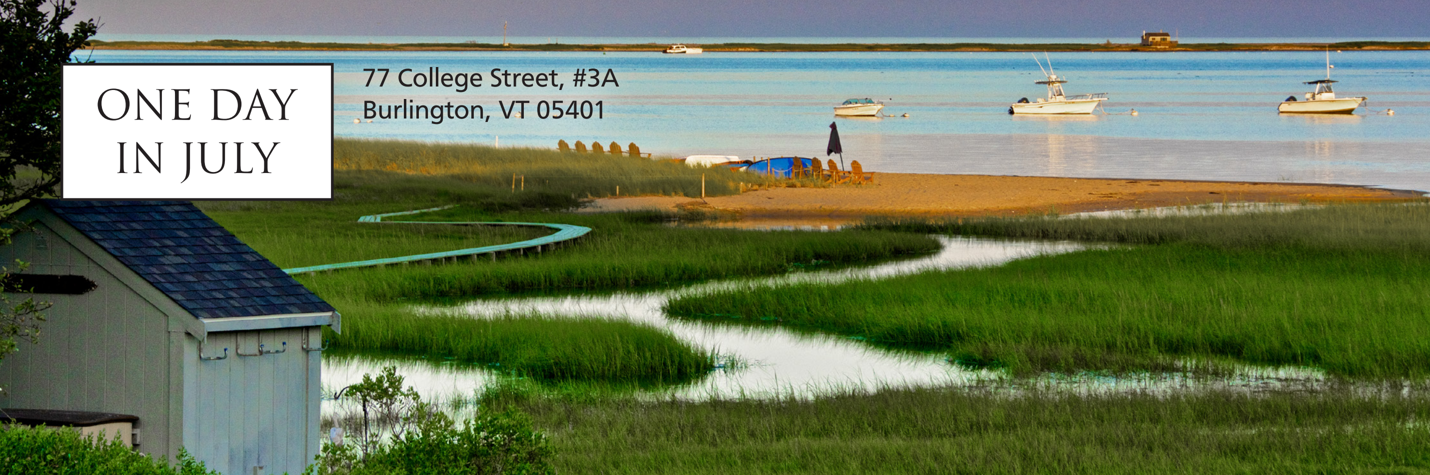




Parting thought.

"Just because you made first chair doesn't mean you can compose a symphony."

Focus on your strengths. Don't try to be all things to all people.



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