Quarterly Booklet

SPRING 2020

It's the Federal Reserve's world, we just live in it.

ONE DAY IN JULY

Spring 2020

Issue XI

A note from our founder

In February the economy was breaking records. One month later, many businesses had ceased to exist or hovered in a state of uncertainty. In the turbulent wake of the largest forced economic retraction in U.S. history, the Federal Reserve and U.S. Treasury stepped into the void, propping up the economy, debt markets, and stock markets, at least for now.

~ Dan Cunnnigham

In a nutshell, what does this mean?

If there are not enough buyers for all of the debt the government is issuing (which is not a problem with Treasuries today), or to push the cost of debt down, the Federal Reserve can step in and buy it, supplying the government with money. If these effects happen in other types of debt, such as corporate bonds or in some cases municipal bonds, the Federal Reserve could buy that debt as well.

This keeps markets functioning with ample demand. It allows the borrower to fund its operations more cheaply. But it risks spurring inflation and, potentially longer-term, a crisis of a different nature.

Market timers beware

"The idea of wholesale shifts is for various reasons impractical and indeed undesirable. Most of those who attempt to, sell too late and buy too late, and do both too often, incurring heavy expenses and developing too unsettled and speculative a state of mind."

John Maynard Keynes,
British Economist (1883-1946)

What is he saying?

Keynes is saying that market timing doesn't work, and even if it occasionally does, that's not good either. Why not? Because success would reinforce in the investor's mind predictive ability, which likely is untrue. This could lead to increased speculation.

Fees of the financial industry, updated for 2020

A not-so-short and not-so-sweet list of fees, methodologies, and effects we have uncovered in this industry. We can avoid most of these for clients, and if we can't, we aim to minimize them.

Fund fees. For ETFs, mutual, and other funds.

Advisory fees. Charged for investment advice.

Wrap fees. Charged by an advisor or manager on a bundle of services.

Product commissions. Funds, annuities, and others pay the advisor a commission.

Front-end loads. Charged when you buy funds.

Back-end loads. Charged when you sell funds.

12b-1 marketing fees. Often used to reward intermediaries. Included in total fund fees above.

Markups. Broker-dealers mark up the price of the security.

Trading fees. For the actual trades of securities.

Short-term trading fees. Charged to your investment if you sell within 30 days of buying.

Excessive buying and selling of positions to enhance trading fees.

Exchange fees. Sometimes charged for transferring from one mutual fund to another.

Fund of funds. Funds own other funds, and stack the fees on top of each other.

Bond spreads. What traders make buying and selling bonds.

Bid/ask spreads. Define how much brokers make in equity trades.

Client termination fees. Sometimes charged to clients when they leave a firm.

Surrender charges. Common in annuities. Can apply for as many as 15 years.

Tax drag. Affects taxable accounts due to turnover of securities within mutual funds.

Capital gains taxes incurred due to funds with gains being sold in a taxable account.

Fees on cash. Paying fees on non-invested cash within mutual funds.

This is not a complete list of the fees of the industry.

Countering the resistance

A good investor is like a Bowflex machine. As a market falls, the investor continues to invest. The difficulty of this rises, and the pressure to mimic “the herd” increases as the situation worsens. The good investor keeps pushing against the resistance, and enjoys a pronounced spring-back when it eventually occurs.

Over a long period of time...

Trying to time the market and missing its best days would have cost a pretty penny...

The Results of Market Timing for the S&P 500 Index (1/1/1961 to 12/31/2015)

	Annualized Return (%)	Growth of $100
Missing 25 Best Days	**5.74 %**	**$831**
Buy and Hold	**9.87 %**	**$3,550**

Source: Market Timing: Opportunities and Risks, Wim Antoons Bank Nagelmackers 2018, S&P 500 Index via Bloomberg

"I'm so confused, I can't even say about what," said Barbara Fajardo, a clinical psychologist in Chicago. "Basically, I'm just trying to find something familiar." Another woman, as she left a branch of Manufacturers Hanover Trust in New York, said with my frustration: "It's very hard to know what to do. You want to get the best return on your money and for a while it was best to have All Savers. Now I don't know."

NY Times, Oct 24, 1982[1]

What was the interest rate on 1-year CD's they were lamenting?

12.6%

[1] The NY Times article was titled "A Dizzying Time for Savers."
I think we'd all put up with the dizziness today.

What is the interest rate on savings accounts today?

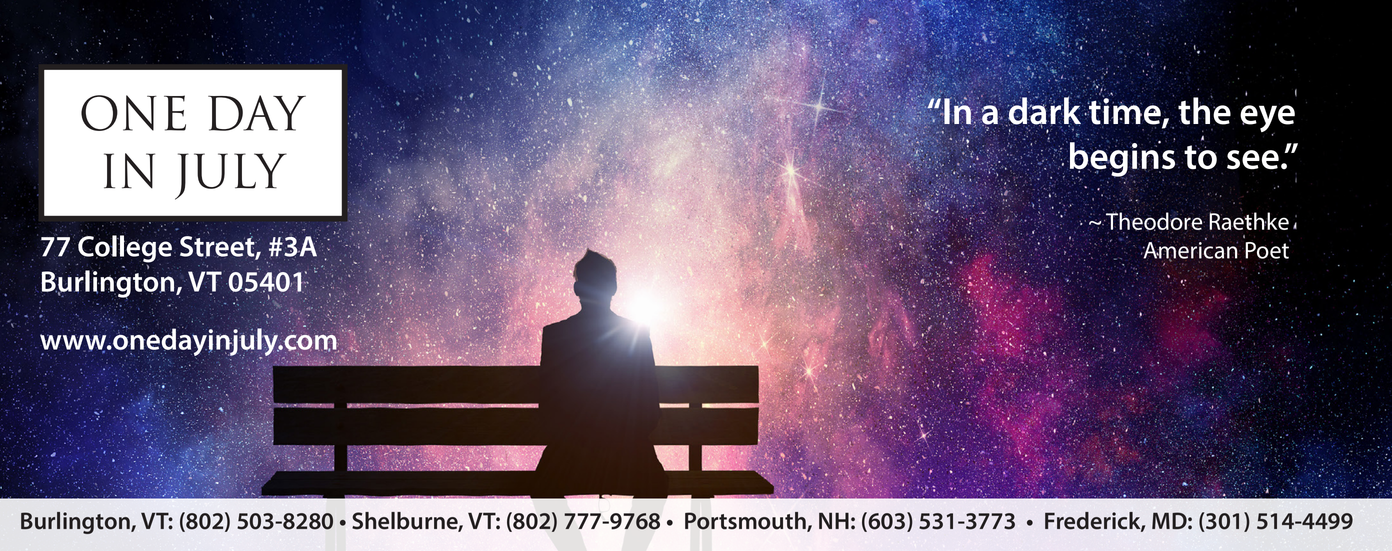
0.07% APY[1,2]

Times change in finance. Many protection products are just that, protection from loss, before inflation is considered. Their after-inflation returns have a high chance of being negative.

The average American who keeps money in banks likely sacrifices his or her financial future, lending it effectively at no return.

[1] FDIC National Savings Rate week of May 4, 2020

[2] As if the APY, or annual percentage yield, matters at this level vs. simple interest.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IN JULY
77 College Street, #3A
Burlington, VT 05401
www.onedayinjuly.com
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begins to see."
~ Theodore Raethke
American Poet
Burlington, VT: (802) 503-8280 • Shelburne, VT: (802) 777-9768 • Portsmouth, NH: (603) 531-3773 • Frederick, MD: (301) 514-4499