

A Note from our Founder

People within the industry reach out to me on a frequent basis. They'll often tell me in confidence "you don't understand what a benefit your firm's independence is."

I've heard this over and over, and after the umpteenth time, I'm realizing it's true (giving the lie to Mark Twain's quote on the cover?)

Free from the demands of corporate managers and public market shareholders, we simply can do what is right for our clients, and relentlessly lower prices. Both make me happy.

~ Dan Cunnnigham



Definition: Dollar-Cost Averaging

Dollar-cost averaging is a technique, usually used as part of a saving program, to buy the same dollar amount of an investment at regular intervals. It's powerful because it helps mitigate emotion at the entry point to an investment.

For example, if you buy an index fund and it falls, you can be happy knowing that you have more buying to do, now at a cheaper price. If you buy an investment and it rises, you can be happy that you got in before the price increased.



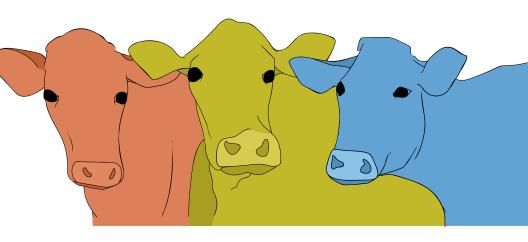
Cash Cows

Biggest percentage increases in dividends¹.

International Small Capitalization Companies: 36.3%

Emerging Markets: 31%

United States Small Capitalization Companies: 25.4%



 $\label{thm:compared} \mbox{[1] Based on all dollar-denominated payouts per share. Source: vanguard.com, is hares.}$

Not-so-alone-a Mona²



Perhaps the most striking thing about the Mona Lisa, when you travel to the Louvre in Paris, is that you can hear the painting before you can see it. Years ago I worried that I would not be able to find it in the giant museum, but the sounds of the crowd create an audible breadcrumb trail.

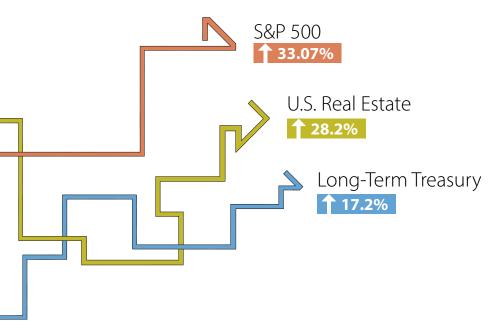
Unwilling to box French people out for position, I spent my time photographing the masses, and wondering if the Mona Lisa was so disproportionate in quality to its peers that the others stare out from the walls alone.

I later learned this is called the Matthew effect in sociology and Zipf's law in statistics. It's why urban areas disproportionately grow versus rural communities.

[2] This is named from the biblical passage Matthew 13:11-12.

Big Year

Inverting their performance from 2018, all asset classes rose in 2019³. The biggest total returns of the primary asset classes we use:



Keep in mind that for acquiring investors the end of 2018 was a better time, as shares were selling for significantly less than they are today.

^[3] Sources: DQYDJ 2019 S&P 500 Return, Dividends Re-invested, Stockcharts.com Vanguard Real Estate Index and iShares 20+ Year Treasury ETF 1/1/2019 - 12/31/2019. The direction of the arrows above is for design only.

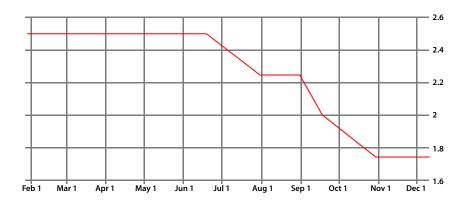
Where did the S&P 500 return come from?

Little came from an increase in current earnings. The S&P 500 companies only grew their earnings by 0.3% in 2019 vs 2018, or less than inflation. The gain could not have come from the increase in dividends, as dividends are paid after earnings are calculated, with the caveat that investors may appreciate the payout rising.

The surge in the index came from investors increasing the priceto-earnings multiple on the shares of the included businesses. Investors expect the businesses to earn more in the future and are willing to speculate that will happen. Because the future is uncertain, investors took on additional risk in this index over the course of the year.

Keep in mind that earnings may be flat because business managers feel more bullish and invest more money in their businesses. This reduces current earnings but may increase them in the future. Analysts of the individual businesses monitor these developments.

2019 Interest Rates



The graph above shows interest rates over 2019⁵. This is the federal funds rate, or what banks charge each other to lend Federal Reserve funds overnight. It is arguably the most important interest rate in the world.

The Value of Simplicity



The fire warning system at Notre-Dame took dozens of experts six years to put together, and in the end involved thousands of pages of diagrams, maps, spreadsheets and contracts, according to archival documents found in a suburban Paris library by The Times.

The result was a system so arcane that when it was called upon to do the one thing that mattered - warn "fire!" and say where - it produced instead a nearly indecipherable message.

~ Elian Peltier, NY Times^o

Keep in mind, simplicity has value.

In a complex investment portfolio, signal gets lost in the noise.

[6] Source: NY Times: Notre-Dame came far closer to collapsing than people knew. 7/18/19

The Value of Focus

"People think focus means saying yes to the thing you've got to focus on. But that's not what it means at all. It means saying no to the hundred other good ideas that there are. You have to pick carefully. I'm actually as proud of the things we haven't done as the things we have done. Innovation is saying no to 1,000 things."

~ Steve Jobs

Somewhere between the goalposts of "important" and "absolutely critical" lies this idea, illuminated by Steve Jobs. It's difficult to implement, whether in an organization, on a committee, or even for yourself. Focusing almost always means upsetting someone because it means saying "no."

The error that people don't see is that there is always an opportunity cost for time. Always.



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ONE DAY IN JULY

77 College Street, #3A Burlington, VT 05401

www.onedayinjuly.com

"If we don't change the direction in which we are headed, we will end up where we are going

~ Chinese Proverb

A good thought for 2020.

Burlington, VT: (802) 503-8280 • Shelburne, VT: (802) 777-9768 • Portsmouth, NH: (603) 531-3773