

# ALBITZ/MILOE & ASSOCIATES, INC.

REGISTERED INVESTMENT ADVISER

## FINANCIAL NEWSLETTER

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### AUTUMN 2019

#### THE CRYSTAL BALL

Last year, going into the 4th quarter of 2018, things seemed relatively calm. Of course, that was right before the wheels fell off. Alternatively, going into the 4th quarter of this year, there is so much turmoil that one might wonder how the wheels are staying on the economic wagon.



Here are the handful of situations that are being bantered around as issues that can derail the economy: Impeachment (we can't think of any good things economically that can come from this, but it isn't something that will crater the economy either); tariffs and trade wars (more likely to impact specific companies within the economy as opposed to disrupting the total economy); policy issues (Medicare for all, free college, wealth taxes (slippery slope as to who is "wealthy" and how to pay for the freebies); higher taxes for corporations and individuals (rarely good for the stock market); recession worries (made the front page when the yield curve inverted...by the way, we are already in a manufacturing recession); and general divisiveness within the country (things just don't feel right). You can probably think of several more issues that could further upset the markets.

OK, so those are the things we know...but how will they play out in the financial markets? No big surprise here, but in our view, they will create increased volatility, causing nervousness and distress for investors.

So what do you do? First off, you don't sell your quality stocks just because everyone else is selling. There's an old saying that goes like this, "Sell when you can, not when you must." So, if you are going to be needing money in the next year, have it in cash, and if you must sell some of your stocks to generate the cash, do it. Next, recognize that opportunities come when the weak holders of stock sell into panics. Look at volatility as your friend, not your foe. If you take that mindset, these periodic alarming selloffs become gifts. Look at them that way. Expect price weakness and be

prepared to ride the roller coaster that is the stock market. Recognize that interest rates are low if you want guarantees. Don't chase after yield, as that is usually a surefire way to lose money. Finally, don't think the world is coming to an end, no matter what you hear on cable TV. The markets will be here long after we are all gone -- so figure that part of the battle is to deal with the unpleasanties the market sometimes provides.

#### Overheard

*"A ruffled mind makes a restless pillow..."*

#### DID VOLATILITY EVER LEAVE?

It is estimated that 75% of daily trading volume is the result of automated computerized trading and equity prices seem to be more volatile today than ever. However, volatility is nothing new, and if you find yourself paying too much attention to the noise of short-term price action, one simple way to minimize volatility is to quit looking so much. Keeping a long-term perspective may be cliché but it remains important to an investor.

Relatively large price swings in the equity markets are normal. Since 1980, as measured by the S&P 500, more than 50% of all years have been subject to a double-digit market correction with the average intra-year decline being 13.9%. During these times, assuming you have already set aside funds for current and upcoming cash needs, you'll want to do your best to stay calm, and remember that we don't own equities because we like risk and volatility, but do so because they provide higher long-term returns needed to meet important financial goals.

Over the same timeframe, calendar year returns were positive over 75% of the time with the average annual return being over 8% per year. By setting and keeping proper expectations about what will likely happen to your investments' value over a market cycle, you can better gain or keep the resolve to remain invested. History has shown that investors who can do so are well rewarded over time.

# TAMING THE SIX EMOTIONAL BIASES:

Behavioral finance theory has identified six types of emotional biases affecting most investors. Understanding when one of them may be at play should help you make better investment decisions.

**Loss-Aversion Bias:** Most people feel the pain of losses much more significantly than an equivalent gain. To avoid the pain of loss, there is a bias to hold a losing investment under changing circumstances hoping it will recover. Unfortunately, this often leads to a larger loss.

**Overconfidence Bias:** Drivers typically rate their driving ability above average. Remain cognizant of the fact that it is natural to overestimate your own skill or predictive ability. Thinking something is certain can be dangerous because it can lead to an underestimation of risk.

**Self-Control Bias:** Today's desires can easily be rationalized to the detriment of a better future. Building the self-discipline to put off current consumption to save and invest what is likely to be required to meet your financial objectives is critical.

**Status Quo Bias:** The old saying, "If it ain't broke, don't fix it." still rings true. However, if something isn't working and you're not correcting the issue, this lack of action can become problematic. Leaving an investment allocation the same under changing financial circumstances would be an inappropriate time to stick with the status quo.

**Endowment Bias:** Typically, people will attribute more value to things that they own compared to something with the same characteristics that someone else owns. This bias can lead to an undue attachment to financial assets such as your company's stock or shares inherited from a relative. If you ever think your stock is worth more because it is special to you, keep in mind that the market is not sentimental.

**Regret-Aversion Bias:** If the fear of making a poor decision is causing you to consistently take no action, you may be affected by this bias. As no one knows the future, it is important to make the best decision possible considering the relevant information at the time. Rather than fearing a decision, you can embrace it as an opportunity to study your thought process and learn from it.

Emotions and decision making are often intertwined. By understanding when these built-in emotional biases are most likely affecting you, it is possible to create more distance between your emotions and your decisions. If you can do this consistently, you'll likely be a better investor as a result.

## NEGATIVE INTEREST RATES AND ECONOMIC STIMULUS

Imagine walking into a bank and being told you had to pay them to hold your money. That is the basis of negative interest rates. It sounds counterintuitive, but it's happening in parts of Europe and Asia right now.

To describe the operational definition of negative interest rates, think of a typical fixed income transaction. You normally would buy a bond and the issuer pays you interest for the rights to use your money for a specific time period. When rates fall below zero, the opposite effect takes place. You actually pay the issuer to hold your cash for you. When would an investor be willing to pay this fee? When they feel all other choices are riskier.

Causing some confusion, the sudden talk of negative interest rates coincided with a rare event during our current inverted yield curve climate. It's true an inverted yield curve often anticipates an economic downturn. Remember, negative interest rates are much different than an inverted yield curve. [To learn more about the inverted yield curve, see Phil Albitz's video on the Albitz/Miloe website.]

The widespread belief by investors is: Weak economy → rate cuts → economic stimulus → stronger GDP → higher corporate profits → higher stock prices. Low rates stimulate the economy and lead to spending and investment. From an economic standpoint, low rates reduce the cost of borrowing, lifting demand for things that are often bought with credit, like cars, homes and appliances. Low rates often translate into lower monthly payments on mortgages, leaving consumers more disposable income to spend. This is one reason a rate cut stimulates the economy.

There are problems with excessively low rates: they tend to create investment in undeserving companies and shaky securities by encouraging the use of excessive leverage. This can create asset bubbles that eventually will burst. Further, if interest rates become too low, central banks don't have at their disposal as much of their best tool for stimulating economies: the ability to cut rates. Jerome Powell and the Federal Reserve have an extremely difficult job now. Whatever the Fed does will lead to second guessing. Is it the job of the Fed to sustain expansions and prevent recessions? Can they even do it? Are recessions avoidable or merely postponable? Should we be happy to see the Fed trying to prolong the economic expansion and the bull market when they're already the longest in history? There is not a clear answer to any of these questions now; only hindsight will be 20/20 and the risk of unintended consequences can't be ignored.

## CYBER ALERT – SIM SWAPPING!

When it comes to cyber security, you can never be too careful. Unfortunately, there's a current scam that is very difficult to protect against and one that can leave you in peril. It's known as SIM swapping and can affect anyone with a mobile phone. For background, your telecom provider profile is housed on a tiny card within your phone known as SIM card. The scam is perpetrated when a hacker activates your SIM on their phone. To do this, all the hacker has to do is call the telecom carrier and provide enough information to convince the agent that they are you. Once verified, they can request to activate your SIM on their device, and if that occurs, Pandora's box has been opened.

Today, it is commonplace to have Multi-Factor Authentication (MFA) which typically involves providing secure sites (like ones you use for banking, credit cards, etc. with your cell number). When you seek to access the site, it will provide a text code. With SIM swapping, the hacker seeks to access one of your sites and uses the "forgot password" function...which verifies "you" via MFA. The hacker requests the new password, the confirm text goes to "you" on their phone, they reset the password and now have access to your accounts. There are current examples of bank accounts being wiped out following SIM swaps along with other forms of identity theft.

If you've been SIM swapped, signs include unusual behavior on your phone like an inability to send/receive texts or calls, notifications that your SIM has been activated on another device, or not being able to logon to your usual accounts or apps. Once you've been victimized, it can be very hard to regain access to your banking and financial sites since many use the same MFA that was used to hack your info.

While nothing can definitively protect you from a SIM swap attack, there are some things you can do. On some devices, you can set a local SIM PIN, but use caution here as forgetting that PIN can have other consequences. Another option is to switch from MFA that uses SMS/Text messages, to one that relies on the phone itself (like Google Authenticator). Hackers can first gain the data needed to SIM swap via phishing scams/malicious emails/links, so if you're not 100% certain, don't click!

### Greek Proverb:

A society grows great when old men plant trees whose shade they know they shall never sit in.

## OFF THE BEATEN PATH – BASEBALL NETTING

The game has changed; but change is not always a bad thing. Yes, homeruns are being hit at a record pace this year and strikeouts have nearly doubled since the 90s. However, another change has sparked big conversation around Major League Baseball: netting. Ask most fans and they will tell you how annoying nets are between the field and fans because of the consequence of hindering the vision of a live game. Ask any player in professional baseball and every single one of them will tell you extending nets past the dugout should have been implemented 30 years ago. The amount of foul ball injuries that happen over the course of a season is frightening, and the people who continue to push hardest for more safety at games are the ones who are there every night: players, coaches, and umpires. Many of us can vividly remember serious injuries each season as a result of a foul ball. In the



majors, there are 30 teams in 30 stadiums that have made it mandatory to have netting extended past the dugouts, but let's not forget about the 256 minor league teams throughout the country.

Increased safety through netting is a BIG win for Major League Baseball and fans around the game.

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## COME TOGETHER

Check out Robbie Robertson's "The Weight" video (with musicians from five continents) on the website: ***Playing for Change***.

<https://playingforchange.com/videos/the-weight-song-around-world/>

Music is the great uniter. What a wonderful feeling that is invoked when watching and listening to musicians from all over the world who put their heart and soul into something as simple as a song.

### PERSONAL NOTES

*Bill and Loris H.— Welcome to the Albitz/Miloe group!*

*Vicki G.— We look forward to working with you.*

*Jesse and Jen H.— We value our relationship with you and the family.*

*Mike and Sherrie D.— The "retirement" adventure is in full bloom...have fun!*

## A STORY

A woman's husband had been having health issues. One day as he lay in bed recovering, he motioned for his wife to come nearer. As she sat by him, he said, "You know what? You have been with me all through the bad times. When I lost my job, you were there to support me. When my business failed, you were there. When we lost the house, you gave me support. When my health started deteriorating, you were still by my side." "You know what?" he asked. "What dear?" she replied gently. "I think you bring me bad luck!"

## REMINDER TO YOUNG FATHERS:



A Dad and his son are going for a hike one early summer morning. The father says to his son, "Hey son, be careful where you walk." The son then responds, "You be careful, Dad. I walk in your footsteps."

## MORE THINGS TO REMEMBER

- Look to the future with anticipation not apprehension.
- Believe in miracles... but it's a good idea to do a little planning just in case God's will is different from what you might want.
- What goes around comes around.
- It's better to look forward to something than to look back on something.
- You'll see it when you believe it.
- To know and not to act is not to know.
- The more you look, the more you look.
- Just when you think you've seen everything, the bearded lady does a double back flip. (John Hiatt)
- "If you have nothing good to say, then don't say anything" -- is pretty good advice.



## Phil's Opinions and Judgments...



### On A Wealth Tax...

I don't like it for one particular reason. Sure, it's easy to say someone worth \$50 million can pay a percentage of their assets as a "wealth tax" and not be affected by the loss of their money, but good luck trying to implement this kind of plan. Plus, haven't any of today's political candidates touting this plan read "Atlas Shrugged?"

### On Recessions...

We've had 11 recessions since 1945. Figure that is one about every seven years. They are not common but then again it's part of the business cycle. They come and they go. Be prepared, but not fearful. Things will work out.

### On Music...

I ran across a pretty country song by Amanda Anne Platt & the Honeycutters called "Birthday Song." It'll make your head bob as the song brings a realistic and optimistic viewpoint on life's journey. Sample lyric: "I know you worry but what's your hurry, we are all going to get there in the end."

### On Worrying...

Everybody worries, but to what end? There are just some things that you can't control. Of course, telling someone not to worry about something that is bothering them could sound crass. Realistically though, most of the stuff people worry about never happens.

### On Trump and the Press ...

There is a general premise that the press doesn't like the President. But judging by the stock price of the NY Times, which was \$13/share three months before the 2016 election and is now around \$30, one might reconsider that supposition.

Until next time,

Phil Chris Paul Clete Sylvia Vance