"Reasons to Sell" Since 2009 - Transcript

Tom: I'm stunned to read that the Dow only had five positive days in a month. This is in the summer of 2012.

Brendan: Of 2012, yeah.

Tom: So, the Dow only had five positive days in July of 2012. Five positive days in a month for the first time since 1968. That's 25 years. I'm stunned because most months, there's 20 or 21 trading days. That's it. So, only having five, that's nothing. I think it would be-

Brendan: Well, it's nothing now. In the moment, it was probably like, why isn't the market going up?

Tom: 2012 wasn't such a hot year.

Brendan: It was fine. The market was up. It wasn't like it was a bad year.

Tom: Yeah, it wasn't a bad year, but it was not one of these runaway trains like 2013.

Brendan: Is that the norm though? Should we expect 30% returns? You know what I mean?

Tom: No, I know what you're saying.

Brendan: If it was up, what? Like high single digits or maybe low double digits that year. That's a good year in the market.

Tom: I guess the two things that stun me when I read that, first of all, having just five days out of a, say 21 day period, that seems like that should happen all the time. The second thing that is stunning or surprising to me is that someone's actually counting this stuff.

Brendan: Right, meaningless stats. I'm sure-

Tom: It's ridiculous.

Brendan: It's not as if this is on a chart because he went back and data mined it. I'm sure there were headline stories about how this was the first time in decades that there hasn't been more than five positive days in a calendar month, or whatever this is.

Tom: People make up the stupidest reasons to sell. We're looking at this reasons to sell that you tweeted out, which is great.

Brendan: It was from Michael Batnick a couple years ago. I think it doesn't even go all the way through today, but it's up to pretty recently.

Tom: Yeah, March of '09 through actually March of '17, so it's over a year.

Brendan: Yeah, it's from last year.

Tom: But stupid stuff like the Dow falls 1000 points for the first time ever.

Brendan: Right, but looking at this chart, it all looks stupid now out the rear view mirror, but all of this stuff seemed like a legitimate threat or like it could have marked the top at the time. There were people out there that believed it. It's not as if you could entirely dismiss them in the heat of the moment. Some of these, like the other one. No more than five positive days in a month. Okay. Maybe there weren't that many people worried about that. I'm not even sure because I was just getting started in the business here, but the flash crash in 2010 or US stocks fall 20% in 2011. People were worried about that. I'm sure you were worried about that.

Tom: I was. Sure.

Brendan: But now in the rear view mirror, these are stupid reasons to sell.

Tom: They are.

Brendan: But that doesn't mean that they were stupid at the time. I tweeted this out yesterday. What I wrote about it was, "This just shows how hard a game it is to play if you're going to try to time the market, or get out at the top or something," because all of these probably looked like the top at the time, or you could make a compelling case. Now they look stupid in the rear view mirror. I think the lesson to be gleaned from that is to not bother with trying to time the market because you're going to look stupid more often than you're not. If you predicted all of these and then the next one that's not on this yet, you hopped out of the market at that one too and you end up being right, were you even right or did you predict 20 of the last one bear markets? And what value is there to that? What did that do to your returns in the interim, jumping in and out and getting freaked out about all this stuff?

Tom: I look at these things and I'm like, "Wow." These were ... You're right. In the last 9 or 10 years, some of these were really big stories, but they were stories. We had a guy who actually called up and said, "Should I be concerned about the physical cliff?"

Brendan: Right.

Tom: He didn't even know what the term was, fiscal cliff. That was at the end of 2012, and I mean look at what the market did in 2013. Just really ridiculous. In fact, in the middle of 2013, the government shut down. It shut down for four days.

Brendan: Was 2013 not also the taper tantrum in the middle of the year?

Tom: Yes it was. Yep.

Brendan: On the way to 30%.

Tom: To a 30% year.

Brendan: Those were legitimate concerns though at the time, right?

Tom: Sure.

Brendan: And also taper tantrum, so the stock market felt that but also the bond market was the focal point there. I'm pretty sure that if you put money into any bonds at that point, you've almost certainly made money over the last five, six years now, so it's not as if that wasn't a valid concern about bonds then either, but everybody was like, "I have to sell my bonds. This is it. We're done."

Tom: I look at these two things right next to each other on this map, taper tantrum, and that was in May or June I think of 2013. Taper tantrum. Get this, 10 year rate jumped from 2-1/2% to 3%, so they haven't moved.

Brendan: What are they today? Yeah.

Tom: Yeah, they haven't moved in five years. Then the other thing, which happened-

Brendan: I was told this was a rising rate environment, sir. I mean, rates have been going up. It's just that it hasn't been, at least yet it hasn't been the apocalypse that was predicted when the Fed was supposed to start doing this.

Tom: So, we also have this pullback in fall of 2014. Gosh, this seems so long ago though. Ebola virus contagion.

Brendan: I know you have such an issue with deeming that the Ebola pullback.

Tom: I can't get over this because that happened the same week that the Fed stopped their quantitative easing program, and nobody talks about that at all because it's sexier to talk about getting a monkey bite.

Brendan: I agree with you that it was probably ... There were probably people concerned about both at the time, but to speak to your earlier point, don't both of those things look just as stupid out the rear view mirror now?

Tom: Of course they do.

Brendan: Regardless of whether you were concerned about the end of QE or Ebola in 2014 when that happened, you were making a mistake by trying to hop out of the market and wait until things settled down or we had more clarity or less uncertainty, as if that's anything that we can ever get.

Tom: So, clients are looking at their accounts now. We're recording this at the end of August 2018. All of a sudden, people are starting to realize, hey the market isn't as bad as it seemed. We got a call from a long-time client yesterday. He was like, "Wow. I can't believe how great things are." I'm like, "Are they? Are they really?" Because if you read some of the headlines in the paper, they don't seem very good, but other things indicate otherwise. So, the stock market's going to move irrespective of the headlines. What you tweeted out the other day, and I hope Tim can include this in the show notes, is just a perfect example of all of these things. Some are market related, some are not.

Brendan: It's just kind of crazy. What's great about the market now? We haven't had a down year in nine years now. Every year since 2009 has been a great year in the market. There hasn't been a negative year in the S&P 500 since then. They've all been good.

Tom: Maybe I'm a little foggy, but didn't we start the year kind of in the muck this year?

Brendan: This year, I mean the market went straight up and then it went straight down.

Tom: Right, in January it was pretty good. Then February, March and even into April, we were going sideways to down. I think if the market's not going up, like on, was it Monday this week where the market went up 1%? That gets people's attention. When it goes down 1%, that also gets people's attention. But otherwise, that day-to-day grind is it two-thirds or three-quarters of the time, the market tends to drift higher most years?

Brendan: It's three-quarters of the time on a yearly basis. Coin flip on a daily basis. You determine your own reality there, how often do you want to check in.
Tom: That's really what it's about, how often do you want to check in and what excuse do you want to pay for to say, "It was the Ebola virus that took me out."

Brendan: You can apply that to the other side too. People think the market's better now than it was nine years ago, for whatever their reasons may be, but the facts are the facts. The market's been up every year for nine years, regardless of whatever your narrative is that you want to apply to it.

Tom: The facts are the facts, but let's also say that while the market's been up for the last nine years, it doesn't mean that it's been straight up either.

Brendan: No, and that's what ... This chart speaks to the idea that the market can be good and we can still have events each and every year that send us down 5%, 10%, 15%, even 20% in 2011.

Tom: Even 20%.

Brendan: So, those things are not mutually exclusive. The market does not have to go only up to be good. We've had a great market environment for eight, nine years now and we've had tons of crap along the way to scare you out.

Tom: I think the thing that a lot of people ... It's easy to look back in the rear view mirror or to use hindsight and say, "The market's averaged 9% a year. I don't remember making 9% a year. I certainly didn't get those kind of returns." So, you use a great term that I've adopted about market returns being lumpy. I actually just sat through a client meeting this morning, and I had to explain that to folks that were in here, how these things don't go in straight lines. They just don't.

When you see these headlines in the news about 3453 days later, the US bull market becomes the longest on record, I just want to put that up on the dartboard and start poking holes in it because it hasn't been some happy days are here again type of parade. Not at all. I don't want to live through this page again, but we've had our own share of the roller coaster ride along the way. That's what makes the market a market.

Brendan: Right. If there weren't a roller coaster ride, there would be no money to be made because there would be no risk involved. It would just be a money printing press, which is-

Tom: How fast is the printing press going? Is it going at 8% this year? Is it going at 2%? Is it going to 30?

Brendan: It could be that for you if you want to be completely detached from the scary things that are happening along the way. You can get returns like that by sitting on your hands, but most people can't do that.

Tom: I think what really makes me scratch my head though is that immediately after you see a headline like that, somewhere buried in the first or near the top of the second paragraph is the thought or the implication that the end is coming.

Brendan: Again, the number, however many 3000 whatever days. That is correct. By the definition of what they are saying, that is true. There's nothing wrong with that stat. It's what people infer out of that or take away from it, like it is implying something that the market has to go down because it has been up for 3000 days or whatever. Not that that's even true. There's nothing wrong with saying a statistic. It's how people interpret it. I think a lot of people do interpret it how you're explaining. It's, "Oh, we've had such a good run. That means it has to come to an end."

Tom: It's got to end sooner or later.

Brendan: It doesn't really mean anything. At some point before this, before this became the longest bull market ever, there was one before that. I don't really know, it would be interesting I think, to see however many days the one before this was, 3000 whatever minus this. What was the one before that and how many days, how long did that record go? Was the previous one 2000 something and we had 1000 days of it being the longest bull market ever? That's like three years, four years of a run that probably also felt like it couldn't continue.

Tom: I mean, just for clarification, are they talking about calendar days or market days?

Brendan: Not sure.

Tom: I don't know. I just think that it's easy to get sucked in by these headlines and it's going to force you into ... We talk about, who was the guy who wrote the book about winning the loser's game? Herb?

Brendan: Charley Ellis.

Tom: Charley Ellis, yeah. He talked about unforced errors. You look at all of these reasons to get out of the market. Oh, Greece is falling apart, the physical cliff, Ebola virus. Give me a break. Some of these other things, gold coming out of nowhere, going to $1900. Basically if you took those signals to make a move, make a big change in your allocation or to get out of the market, you were wrong. Then the funny thing is, this is what I used to tell clients. If you sold anything in the 1980's, if you sold anything, you were wrong. You made a mistake.

Brendan: I mean, you're always, in the history that we have, you're always wrong if you sold at any ... You were wrong if you sold before 2008.

Tom: If you sold yesterday.

Brendan: You know what I mean? You were still wrong, but people don't care about it in that way. It's every one of these is unique and it's, like we said before, it's easy to go back and say these were mistakes in hindsight, but they don't feel like a mistake in the moment when you want to wait it out and see if the dust will settle and then you'll get back in when things are safer or whatever.

It never feels like that in the moment, so to just arbitrarily say they were all mistakes, like yeah they were, but are you sure about this one? This is the new one. This is now, what if this is different? It also depends on what you're defining as wrong. Is wrong the performance over the next year? Is it over the next three years, five years? Is it over the remainder of your lifetime that you're going to be investing? Because if it is the last one, you're probably always going to be wrong if you're selling out, because given a long enough time horizon, like I said, you were wrong to sell in 2008 if you had a long enough time horizon.

Tom: Well, this kind of leads to a discussion that we have a lot with people about, hey if the market is giving you indigestion, where you can't sleep at night because you're afraid that, hey I missed selling before the Ebola virus and I missed that 14%, I'm now down 14% after this whole news on Ebola came out, maybe you have too much money in the market.

Brendan: Right. But that's the flip side of that is balancing that with the regret of in 2013, when you're not 100% in stocks and the market's up 30% and you only made 20 because you have a balanced portfolio. I know. Look, I understand the greed that's involved with that, but it's very real. So, you have to balance those two parts of it. What are you going to regret more, missing out on a gangbusters year where the market goes up 30% or are you going to care more about bearing the full brunt of a 20% draw down or 30% draw down? You come up with something in the middle, because you're going to want to balance those things.

Tom: I'm not a psychologist, but I think that people worry and lose sleep more over losses-

Brendan: Agreed.

Tom: Than they do about whether to get in or get out, or-

Brendan: Agreed, but we've both seen the other side of that too, when people haven't captured enough of the upside. So, I think both of them exist and they're conversations and thoughts that you're going to have over and over, like Monday morning quarterbacking yourself, or whoever's doing your investments for you.

Why did we bear the full brunt of this? Or why didn't we capture all the upside in that? I think if you're going to invest in that binary fashion where you need to hop out because of the Ebola crisis and then get all back in because you need the upside, it's a tough game to play. I don't think what you do over the long term is going to be worth the agita that it creates for you.

We talked not too long ago with some clients about the idea of finding this balance in their portfolio. I brought up something that I've heard a handful of times on different podcasts, a story about Harry Markowitz, who pioneered the efficient frontier and finding the right weightings for these asset classes and portfolios. He was asked what he did with his own personal money, I think one time, and said that, "I'm 50-50. I'm half in stocks, half in bonds," because of exactly what we just described. "I have some money in there, so when things are going up, I feel good because I have some exposure. And then when things are going down, eh at least it could have been worse. I could have had all my money in the market. So, at least I had some in bonds."

Tom: Then on the flip side, you look at a guy like Charley Ellis. If he's listening, he has no bonds. He's 100% in equities. That's right for some people, but not for everybody.

Brendan: I think the list of people that that's right for is very short. The longer a bull market goes on, the more people think they can opt themselves into that list-

Tom: Hop on the train.

Brendan: But I really don't think that that is right for a lot of people.

Tom: Again, without getting into specifics, we actually had someone here at the table not very long ago who told us that she completely sidestepped the mess in 2008. You know who I'm talking about.

Brendan: Selective memory is good.

Tom: It is unbelievable now how we're getting 10 years away from the fall of 2008, and people are instantly forgetting or selectively remembering the events that took place at that time.

Brendan: It's amazing because if you had money invested in the run-up to that, and you just didn't do anything, you could have just as selective a memory now and say, "Yeah, I ate a 40% draw down in my portfolio, but who cares. I'm up 300% since then. What does it matter?" But most people don't have the ability to just move on from things like that.

Tom: It was a lot all at once. I think that really shook a lot of people.

Brendan: Sure.

Tom: It's hard to even tell someone exactly what's going to happen in the future. Imagine that we're at the Thanksgiving table in 2008 and we're telling people that 9 or 10 years from now, the market's going to be-

Brendan: It's going to have tripled and we won't, this won't matter. Yeah, imagine saying that with a straight face. That's why all of these reasons to sell over the years seem just as legitimate as that, because remember that one time when it was a 50% draw down? What if this is the next one? Don't I want to get out now while it's only down 10? Ebola was the trigger.

Tom: Who knew?

Brendan: But in the moment, it's like we're chuckling about this now. There's no answer. I'm not saying there's an answer to help people discern whether this is the real deal or not. I don't think there is one.

Tom: I think what bothers me a little bit after being in the business this long, is that some of the happy faces and some of the glee that I hear on the phone with some clients today is going to turn into tears. Even though we warn them, we tell them, we do the right things to protect them, they're still going to be unhappy when the market goes down.

Brendan: Of course. That's our job. That's why we have a job is to help people deal with these emotions because this is crazy. This is people's livelihood on the line, so I get that there's emotions in it and that every 5% dip feels like it's the next 2008. It's our job to keep people doing the right stuff, so that they don't blow themselves up. I mean, yeah it would be great if everybody were robots and we could just send them an email update and say, "Everything's cool. Don't worry about your account." But that's not going to work.

Tom: It doesn't work that way.

Brendan: They want to hear from somebody and vent their concerns and have their questions answered. I think that's hopefully why our profession will exist forever.

Tom: Markets can turn on a dime. So can emotions. That's the bothersome part. It still bothers me, all these years later. It's like, you know some of these people are going to call up some day and they're going to be upset. They're going to be unhappy. That's too bad. Even if we do all the right things, that doesn't mean do what they want. It means do the right things for them. They're still going to be unhappy. That's life.

Brendan: You can't please everybody, and there's always going to be unhappy people, but it comes with the territory I suppose. I think six years ago today, I came in for my first day of work at Mullooly Asset Management. Not that I have a ton of insight to share. I still haven't seen a bear market, so nothing I say counts.

Tom: So, this year you can, for the next year you can wear the Wally Backman jersey, number six.

Brendan: Okay.

Tom: Then a year from now, we'll give you the Jose Reyes.

Brendan: I'm going to pass on that one.

Tom: All right. Well, thanks for listening to episode 226. We'll catch you on the next time.