RBC Wealth Management
The Crescent Group
Carsten Frederiksen, CFP®
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
Direct: 214-775-6401
NMLS#: 1321563 City National Bank
[The Crescent Group website]

Paul Hendershot
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
NMLS # 1370978 City National Bank

Nick Weege, CPFA
Financial Advisor
214-775-6408

Lindsey Vickers, MBA
Client Service Associate
214-775-6458

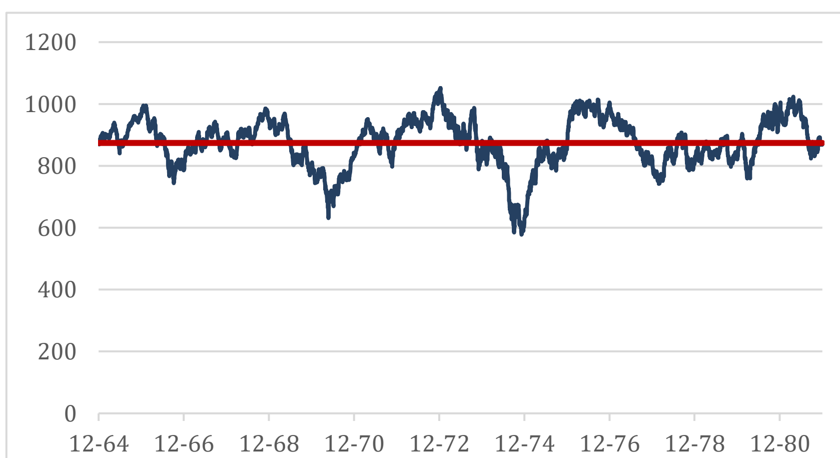
Andrew Ielmini
Investment Associate
214-775-6448

August 2021 Crescent Commentary

"As long as the music is playing, you've got to get up and dance. We're still dancing." – Charles Prince, former CEO of Citigroup, July 2007[1]

The former CEO of Citigroup made that statement just before the implosion of the 2008 financial crisis. It was a reference to Citigroup's continued involvement in risky financial transactions. Of course, high financiers weren't the only ones dancing. Many people throughout America were also dancing to the tune of easy money being made in residential real estate. Home prices had gone up a lot over several years, and that meant they could never go down, right? As always happens, the music stopped playing. Citigroup's stock price fell to a dollar a share and the U.S. government had to rescue our entire financial system. Many homeowners went through foreclosure and lost everything.

Today, many individual investors are again dancing. Easy money is being made with the same reasoning as the past: buy what everyone else buys because the price has gone up, and prices only go up. When you look at what's happened with home prices, crypto currencies, and certain segments of the stock market, the world appears to have gone mad. Here are a couple of charts that illustrate what happens to stock indices when the music stops playing:



This first chart shows the Dow Jones index from 1964 to 1981. Investors in U.S. stocks earned no price appreciation for 17 years.

Because prices didn't go up, dividends were a crucial part of an investors' return over that time period[2].

This second chart shows that the S&P 500 index was flat for thirteen years from 2000 to 2013. What would your life look like if you earned no return on your money for the next ten to twenty years? Worse, what would your life look like if you follow the crowd into an investment that eventually crashes, and you panic and sell, losing money? What impact would that have on your hopes, dreams, and goals? Right now it appears that not enough people are asking themselves those questions. At the Crescent Group, we ask ourselves those questions every day. We designed our investment process to help keep our clients out of situations depicted in these charts[2].

While segments of investment markets are currently experiencing euphoria, our Group sticks to mundane but effective investments that generate little excitement but steady returns. As we've said in the past, good financial advisors do more than prevent their clients from selling when markets crash. Good advisors also keep their clients out of what's popular in order to avoid bubbles that eventually burst[2].

There are a number of strict criteria our Group uses to prevent our clients from experiencing a lost decade or two. One of the most crucial is that we don't invest in something just because it's gone up a lot. Successful investing is not a popularity contest. This is the biggest mistake many investors make – they chase after what has done the best over the past few years and pay a very high price for those assets, which leads to poor or disastrous future results[3].

Our investment approach is very much that of the tortoise rather than the hare. We seek to achieve the best returns for our clients with the least amount of risk over a period of decades. During periods of investment euphoria such as the present time, many investors forget that boring can be beautiful. But the long-term data show otherwise. Over the 42 years from December 1967 to December 2009, the Consumer Staples industry generated the highest annual return of all U.S. industries. The most popular investment industry at the present moment in time, Information Technology, earned the lowest annual return over that time period. Does that sound confusing? It's probably because 42 years allows plenty of time to see the impact that technological obsolescence can have on investment industries. Bill Gates probably knows as much about shifting technological trends as any living person. Gates said it best in a 1998 interview: "I think the multiples of technology stocks should be quite a bit lower than the multiples of stocks like Coke and Gillette, because we are subject to complete changes in the rules. I know very well that in the next ten years, if Microsoft is still a leader, we will have had to weather at least three crises."[4][5]

Part of the problem with today's investment euphoria is that investors aren't taking into account the fact that the rules of the game will change for presently popular investments. Similar to the time periods depicted in the charts above, investment markets will go through prolonged, multi-year trials in the future. Right now, too many investors are only thinking about how to make the next dollar. Our Group is instead asking what gives our clients the best chance of surviving and thriving over the long-term. Our Group is confident that our consistent and steady approach to investing is the right one to guide our clients through future changes, hardship, and uncertainty, and onward to success. We will continue to focus on protecting our clients' irreplaceable wealth and growing it intelligently to allow our clients to achieve their hopes, dreams, and goals.

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Sources:

(1) Reuters
(2) S&P Dow Jones Indices LLC
(3) RBC
(4) Fortune
(5) What Works on Wall Street, 4th Edition