



Wealth  
Management

## The Crescent Group

**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**

Financial Advisor  
214-775-6408

**Lindsey Vickers, MBA**

Client Service Associate  
214-775-6458

**Andrew Ielmini**

Client Service Associate  
214-775-6448

## April 2019 Investment Commentary

With stocks ending April at all-time high levels, most investors have already forgotten that just four months ago, many market participants found themselves gripped with panic and running for the exits. While all investors want to keep up with the speculators when times are good and avoid the collapse when times are bad, history has shown that you can't have it both ways. In this commentary, we discuss some of the key mistakes we see investors making right now, and explain what our Group currently does to protect investors from inevitable future market declines while simultaneously positioning them for growth.

As most investors know, U.S. stocks experienced a bear market last fall, declining 20% from peak to bottom. This was the largest decline experienced by U.S. stocks since the financial crisis almost ten years earlier. Last year's bear market recovered quickly, and U.S. stocks returned to their previous record levels within three months. Despite the short-lived nature of last year's bear market, many investors and their advisors committed classic investment blunders. As a result of these blunders, the average individual investor lost twice as much money as the S&P 500 last year. More specifically, according to DALBAR, the average investor in stock and bond mutual funds and ETFs experienced a loss of 9.42% last year, compared to a loss of 4.38% for the S&P 500 index. DALBAR attributed this bad result mainly to investor behavior. These behavioral investment blunders repeat themselves over time. Whenever stocks have done well, investors chase after those returns, typically flocking to whatever hot investments have recently done best. Those hot investments become overvalued, and when the inevitable correction comes, those hot investments fall the most. For example, last October, two of the hottest stocks, Amazon.com and Netflix, fell 20% and 19% respectively, whereas the S&P 500 fell 7%. Investors panic and sell when they experience a dramatic drop in the value of the hot stocks they chased, which causes them to lock in losses. This type of behavior caused investors to lose twice as much money as the stock market did last year. It's worth noting that stocks aren't the only type of investment susceptible to bubbles and crashes. Ten years ago, residential real estate led the crash after years of rampant speculation and overvaluation. No area of investment is safe from bubbles<sup>(1)(2)(3)</sup>.

Now that we are a third of the way through 2019, we see investors and their advisors repeating the same blunders that they committed in 2018.

According to Lipper and EPFR Global, U.S. stock mutual funds and ETFs experienced fund outflows during the first quarter of the year, a time period during which the S&P 500 increased 14% in value. This means individual investors and their advisors continued to sell and miss out on the stock market recovery. Now in April, *after* the stock market has gone up, data from Lipper shows that individual investors and their advisors have begun to move back into stocks, with stock funds and ETFs showing inflows for the week ended April 10<sup>th</sup>. According to E-Trade, “it speaks to the emotional challenge that all investors are presented with when it comes to maintaining a longer term point of view. It’s no secret that smaller, retail investors chase performance. That’s a trend that’s unfortunately ever present<sup>(4)</sup>.”

Unfortunately for many individual investors, their advisors have contributed to their poor decision making, rather than helping them make good decisions. Many financial advisors simply lack the significant institutional investment experience needed to have confidence in and stick to their investment process. The Crescent Group at RBC does have substantial institutional investment experience, and we bring this to bear in all client matters. So what does our Group do to simultaneously protect our investors from bubbles and downturns while positioning them to take advantage of growth from stocks? For one thing, we acknowledge and realize that no person can predict short-term stock market movements. We do, however, have full confidence that long-term stock market movements will be upward. We also acknowledge that trying to guess short-term market movements is a fool’s game, as evidenced by the DALBAR study mentioned above, which showed that attempts to time the market caused investors to lose twice as much money as the S&P 500 lost last year. So, rather than short-term guesswork, which leads to failure, our investment strategy consists of three pillars:

1. We only invest in high quality investments with a history of stable profits and cash flows; each investment has a proven track record of enduring through a continuous stream of unprecedented crises.
2. We only buy those high quality investments when they are available at a reasonable price. When we can’t buy investments at reasonable prices, we increase our holdings of bonds and cash, which we have done recently.
3. For clients living off of their assets, we maintain three to five years’ worth of living expenses in cash and bonds so that they have a stable source of funds available in the event of a prolonged market decline. This prevents us from having to sell stocks at depressed prices.

We have the highest level of confidence in our investment strategy, which was pioneered by Warren Buffett’s mentor Ben Graham over one hundred years ago, and has been used with great effect by many of history’s most successful investors. We would never consider abandoning our strategy as a result of short-term market pessimism or emotional whim. Over the years, we’ve heard many people say “I can’t afford another 2008.” We understand and respect the sentiment expressed by that statement. But it turns out that what they really can’t afford is bad advice when something like 2008 happens. For an investor who invested *all* their money in the U.S. stock market on the worst possible day, October 9, 2007 – the day the U.S. stock market reached its record high level prior to the financial crisis – and held through the financial crisis, that investor would have earned about 7.7% a year since then. Not only is 7.7% several times higher than the return earned by the average investor (DALBAR reports that the average investors earns 1.9% over a 30-year period), but it’s a return that many investors *need*. Our Group’s purpose is to make sure our clients are properly advised at all times – *especially* during the tough times when everyone is panicking and selling their stocks – so that they can earn strong returns on their money and successfully reach their retirement goals<sup>(5)</sup>.

Best Regards,

The Crescent Group

Carsten Frederiksen, CFP® | Paul Hendershot | Nick Weege | Andrew Ielmini | Lindsey Wood, MBA

**Sources:**

- (1) JP Morgan
- (2) DALBAR
- (3) S&P Down Jones Indices LLC

- (4) MarketWatch
- (5) The Einstein of Money

The information contained in this letter has been derived from sources believed to be reliable, but is not guaranteed as to accuracy and completeness and does not purport to be a complete analysis of the material discussed. The opinions expressed herein are those of the author and do not necessarily reflect those of RBC Wealth Management, and are subject to change without notice. Past performance is not indication of future results.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

The information contained in this report has been compiled from sources believed to be reliable, but no representation or warranty, express or implied, is made by RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute the author's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility.

Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult your Financial Advisor if you are in doubt about the suitability of such investments or services. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. The information and services contained herein are intended only for individuals residing in the states that the Financial Advisor is properly registered. This report is not, and under no circumstances should be construed as, a solicitation to act as a Financial Advisor in any state where the Financial Advisor is not registered.

To the fullest extent permitted by law neither RBC Wealth Management nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein.