



**WASATCH**  
CAPITAL MANAGEMENT OF  
**RAYMOND JAMES®**

**JUNE 2019**

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## **Old Fishermen Never Die; They Just Smell That Way**

- Article by Mark Lazar

***Risk comes from not knowing what you're doing. Warren Buffet***

May was a welcome month for bondholders but a gut punch to equity investors as stocks dropped over [6%](#). In both cases, trade was the provocateur. Mr. Market expected (priced-in) better trade negotiations, which have instead turned frosty. Our base case is the two biggest economies in the world eventually come to terms, however, there is more hair on the deal than originally thought—much of which has to do with [forced technology transfers](#).

Stocks and, for the most part, bonds, were negative last year. However, in spite of protracted trade angst, the underlying economic data has been surprisingly good and the first half of 2019 has thus far delivered above-average returns.

Item	Data point
S&P 500 Return YTD	<a href="#">10.74%</a>
Bond Index Return YTD	<a href="#">4.80%</a>
Foreign Index Return YTD	<a href="#">7.64%</a>
Emerging Market Index YTD	<a href="#">3.34%</a>
U.S Forecast GDP 2019 <sup>1</sup>	2.60%
Unemployment Rate	<a href="#">3.60%</a>

\*All hyperlinked data as of 5/31/2019

<sup>1</sup>Kiplinger's, 5/27/2019

A well-diversified portfolio consisting of stocks, bonds, [sectors](#), [alternatives](#), etc. can and should provide attractive long-term returns while reducing portfolio volatility. In other words, provide a reasonable return for a given level of risk.

The concept of risk versus reward has been around long before Wall Street and applies to more than stocks and bonds. As the risk of loss increases, rational beings require a greater potential return. The chart below depicts the long-term return of several investments against the rate of inflation for the same period. Treasury bills, which are a [cash equivalent](#), outpaced inflation by one half of one percent. Investors in this government security were never exposed to potential loss, and one dollar invested from 1926–2017 grew to \$21. By contrast, [small company stocks](#) averaged over 12% during the same period and one dollar grew to nearly \$37,000. However, investors experienced tremendous volatility, including protracted periods of negative returns.

Stocks, Bonds, Bills, and Inflation 1926–2017



## [Morningstar](#)

To put this in the context of an investment portfolio, a recent study perfectly illustrates the risk/reward tradeoff. While bonds aren't immune to principal risk, [fixed income securities](#) tend to be far less volatile than stocks and, as you would expect, provide lower returns over time. In this example each portfolio started with \$10,000 and the returns are averaged for the same period as the previous chart.

<b>Allocation Models Risk Versus Reward</b>				
<b>Stocks</b>	<b>Bonds</b>	<b>Avg Return</b>	<b>Worst Year</b>	<b>30-Year</b>
0%	100%	5.4%	-8.1%	\$ 48,442
20%	80%	6.7%	-10.1%	\$ 69,973
30%	70%	7.3%	-14.2%	\$ 82,793
40%	60%	7.8%	-18.4%	\$ 95,184
50%	50%	8.4%	-22.5%	\$ 112,429
60%	40%	8.8%	-26.6%	\$ 125,565
70%	30%	9.3%	-30.7%	\$ 144,080
80%	20%	9.6%	-34.9%	\$ 156,429
100%	0%	10.3%	-43.1%	\$ 189,350

## [Vanguard](#)

While the preceding table exemplifies the downside associated with investing in stocks, what may not be quite so obvious is the risk of running out of money in retirement. If a bond investor wished to have the same amount of money at the end of thirty years as a stock investor, he would need to invest \$39,088 or nearly four times as much. Yes, the stock investor will likely do more hand-wringing than the bond investor, but historically the stock market has richly rewarded investors for their patience and stoicism.

The risk/reward concept applies to many things; the entrepreneur who quits her job as a government employee to start her own business does so with the expectation her potential income will be far greater. The innovator who makes a substantial investment in both money and time to create some new gadget or technology, may live like a pauper for many years before receiving a single penny for their efforts. Similarly, medical students would be wise to consider not just the explicit cost of college and medical school, but the opportunity cost as well as the total cost of schooling plus foregone wages exceeds [\\$820,000](#).

Our counsel is not to discourage risk-taking but, rather, ensure clients invest with eyes wide open and a reasonable confidence that, over time, they are adequately rewarded for the inevitable volatility associated with [market-priced securities](#). This is why it's important to both conduct a proper risk assessment and create an [investment policy statement](#), which serves as a North Star during stormy seas.

## Financial Lunch & Learn Series

You've seen the emails, now it's time to join us! You will be receiving invitations regarding our lunch & learn summer series and fall series in the coming months.

Each topic is a forty five minute discussion meant to be purely educational in nature. You see, we believe our job isn't just to guide you to the right decision, it's to help inspire the right questions, the right ideas, and encourage a lifetime of financial stewardship so you can live the life that you deserve.

Come join us in a no pressure, casual environment and learn more. Or feel free to extend your invitations to a friend or family member that you think could benefit from a specific topic!

**See the next page for our upcoming June 11<sup>th</sup> and July 16<sup>th</sup> discussions!**

Pictured below following our May 29<sup>th</sup> Lunch & Learn on Responsible Investing. (For those unable to make it, we will be posting a Webinar of the presentation on our blog tab!)

<https://www.raymondjames.com/wasatchcapitalmanagement/blog>



Mark Lazar, John Bergerson, Morgan Irvin, Taylor Pierce



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## JOIN US FOR FINANCIAL LUNCH & LEARNS

*Lunch & Learn is complimentary for you and a guest*

May 29<sup>th</sup>

12-12:45PM

### Responsible Investing

Align your investments with your moral compass. We will discuss investing in socially responsible corporate behavior.

June 11<sup>th</sup>

12-12:45PM

### Planning your Retirement

Planning your retirement in today's economy. Pitfalls to avoid, and steps to take to secure your financial freedom in retirement.

July 16<sup>th</sup>

12-12:45PM

### 12 Financial Resolutions

You make weekend plans, so why wouldn't you take the steps necessary to ensure you achieve your financial goals.

#### WASATCH CAPITAL MANAGEMENT OF RAYMOND JAMES

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## Wasatch Team Updates



**Mark**

Mark, Savina, and a few friends out for dinner on a recent trip to California for a Raymond James Conference. They were thankful to escape the spring rain that has been in Utah all May!



**Morgan**

In celebration of Morgan's birthday, she, along with 10 friends took off to hike Portugal's coastline. Hiking over 90 miles in 6 days past scenic beaches, cliffs (as seen above), and endless fields of wildflowers. It is at the top of her bucket list to return back to Portugal as soon as possible!



**John**

Getting in shape early in the season! John is a true weekend warrior, heading to Lake Tahoe to road bike ride 75 miles around the lake in MAY!!



**Melissa**

Taking advantage of the first signs of spring, Melissa has been hitting the trails of Cottonwood Canyon on her mountain bike.



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