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DJIA 29,100 S&P 500 3,580 3-MONTH T-BILL 0.12% 10-YR TREASURY BOND 0.66%

As we continue to face major uncertainties in our lives, our thoughts for health, safety, and peace of mind are with you and your families.

On Eggs and Baskets

An Old and Very Relevant Proverb

“Don’t put all your eggs in one basket.” I was fascinated to find out that this classic proverb is around 2,500 years old, the first known instance being in the Book of Ecclesiastes. The more common phrasing comes from Miguel de Cervantes in Don Quixote: “It is the part of a wise man to keep himself today for tomorrow, and not to venture all his eggs in one basket.” In other words, in order to live to see another day, it is wise to diversify assets among many investments.

I cannot think of any other piece of financial advice that has stood the test of time so well that so neatly sums up one of the most fundamental aspects of investing.

While diversification is very well understood, it is not often properly practiced. There are countless stories of investors going all-in on Dot-Com stocks in the 90s, or WorldCom employees losing everything after the fraud was exposed. The proverb might pre-date Ancient Rome, but even today there is a tendency to go broke with one investment, quite literally.

What about all the successful One-Basketers?

Admittedly, there are many revered examples of “one-basketers” who succeeded by ignoring diversification altogether. Bill Gates, Mark Zuckerberg, Jeff Bezos, and the Walton family, to name a few, each made their wealth by going all in on one company. It is very tempting to replicate their success story by betting on a few great companies. However, for each one-basketer there are likely thousands of failed entrepreneurs we never read about. Put it this way, there isn’t a Forbes 400 Bankrupt list to go along with the Top 400 Billionaires.

We must make a choice: continually attempt to time which baskets to buy and sell or be content holding many baskets – some winners and some losers – with a satisfactory expected overall long-term return. In general, for investors who don’t have direct control over the companies they own, it is better to err on the side of many baskets.

How many baskets are enough?

There is the opposite extreme, though – what Peter Lynch called “diworsification”. There is no benefit to adding more baskets if they’re not sturdy enough to hold any eggs. Ideally we want to build a portfolio that is exposed to many differently behaving assets all of which we expect to perform well over time.

Remember the goal isn’t the baskets in and of themselves, but rather to get our nest eggs to and through retirement with a minimum of worry.

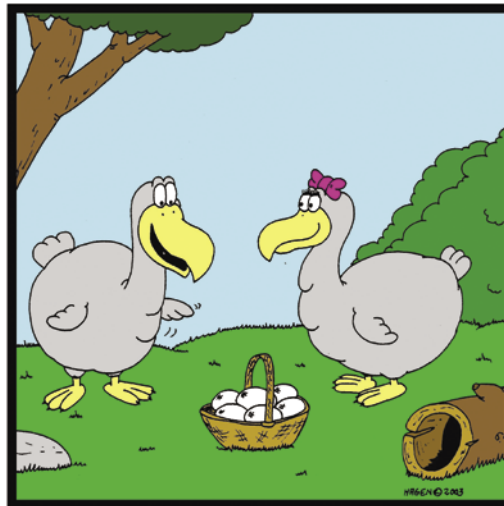
Why is this so relevant today?

The last few years has seen a milder (but no less concerning) trend of what might be called few-basketing.

After more than ten years of dominance by United States over international stocks, there has been a growing tendency to put all stock investments into the purely domestic S&P 500 index. The reasoning is simple: investing any portion outside of the United States in the last decade or so had lower returns than concentrating in the S&P 500. On top of this, since the S&P 500 is invested in hundreds of stocks, it seems that it must be properly diversified.

The first mistake comes from using short-term hindsight. Looking at the decade before 2008 shows the very opposite trend dominated global stock returns. Even more drastically, in the nearly 20 years from 1970 to 1989, US stocks underperformed by over 75%. The relationship between these baskets tends to be very cyclical. Despite the protracted differences in performance, a well-diversified global portfolio with both US and international stocks still performed well over the last 50 years, without taking risky bets on the timing of these mega-trends.

On the second point, it is true that the S&P 500 is more well-rounded than betting on a couple of stocks. However, the S&P 500, which is weighted by the size of the constituent companies, has become heavily concentrated in a handful of growth-style tech stocks. Currently over one-quarter of the index is in five stocks, a level not seen since the late 1990s.



We are the last Dodos on the planet, so I've put all of our eggs safely into this basket...

Simply put, the recent over-emphasis on United States and S&P 500 indexing appears reasonable at face value but we believe it is not the most prudent long-term portfolio decision. History has repeatedly shown the benefits to patiently weathering multi-year trends like those we are witnessing today. We still firmly believe in the value of spreading your eggs among many baskets, especially across geography, despite the frustration a global investor has felt for a while.

In the next *Investment Insights*...

There is so much more to say about the importance of diversification. Next time, we will discuss how this concept pervades every investment decision we make at Finkelberg Investments, from asset allocation, to the GEM portfolio, and even in the bond ladder.

Until then, don't keep all your eggs in one basket!

Davis

This and That

Finkelberg Racing Update

Harness racing has had delays and some in-person viewing limitations, but is one of the sports that is mostly up and running. If nothing else, it's a wonderful distraction. Many of you have asked for an update on our Standardbreds, so here goes:

Bro, our four-year-old pacer is racing at Hoosier Park in Indiana. Based on his performance last year, the Pinehurst, NC Training Center, where our horses train during the winter, named Bro their three-year-old horse of the year.

Cheeky (real name Cheek Please) is our three-year-old filly pacer currently competing in the New York Sire Stakes Excelsior A Level. She has won four of her seven lifetime starts and hopefully will be eligible to compete in the series finale in a few weeks.

Go Bro and Go Cheeky!



Pocono Downs – September 1, 2019 – Race 3
Owner Jay Hochstetler & Finkelberg Racing – Trainer Homer Hochstetler – Driver Tyler Buter

We hope you are managing well through these unusual and stressful times. If we can help in any way, please call.

Until next time,

Arty Finkelberg, CFA, CFP®
Senior Vice President, Investments



Congratulations!

Congratulations to Davis on receiving his Chartered Financial Analyst designation. To earn the CFA charter requires passing three levels of exams and four years of investment experience. Well done, Davis! We are very proud of you!

Happy birthday to those celebrating special birthdays!

- 102 F.F. of Natchez, MS
- 95 V.C. of Madison, MS
- 90 D.L. of Sarasota, FL
- 85 G.B. of Magee, MS
- 85 M.M. of Jackson, MS
- 85 M.R. of Brandon, MS
- 85 G.W. of Mendenhall, MS
- 85 D.B. of Palm Harbor, FL

Happy Anniversary to those celebrating their 50th, 60th, and higher wedding anniversaries!

- 72nd F. and F.S. of Ellisville, MS
- 68th W. and M.J. of Pearl, MS
- 65th C. and J.H. of Clinton, MS
- 64th W. and P.D. of Hoover, AL
- 60th D. and J.P. of Ocean Springs, MS
- 60th K. and M.G. of Philadelphia, MS
- 50th D. and A.L. of Fairhope, AL