THE PINNACLE GROUP

Weekly Market Commentary
November 12, 2018

The Markets

How are you feeling about financial markets?

Some votes are still being counted but investors appear to be happy with the outcome of mid-term elections. Major U.S. stock indices in the United States moved higher last week, and the *American Association of Individual Investors (AAII) Sentiment Survey* reported:[1]

> "Optimism among individual investors about the short-term direction of stock prices is above average for just the second time in nine weeks…Bullish sentiment, expectations that stock prices will rise over the next six months, rose 3.4 percentage points to 41.3 percent. This is a five-week high. The historical average is 38.5 percent."

Before you get too excited about the rise in optimism, you should know pessimism also remains at historically high levels. According to *AAII*:[1]

> "Bearish sentiment, expectations that stock prices will fall over the next six months, fell 3.3 percentage points to 31.2 percent. The drop was not steep enough to prevent pessimism from remaining above its historical average of 30.5 percent for the eighth time in nine weeks."

So, from a historic perspective, investors are both more bullish and more bearish than average. If Sir John Templeton was correct, the mixed emotions of investors could be good news for stock markets. Templeton reportedly said, "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria."[2]

While changes in sentiment are interesting market measurements, they shouldn't be the only factor that influences investment decision-making. The most important gauge of an individual's financial success is his or her progress toward achieving personal life goals – and goals change over time.

Data as of 11/9/18	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.1%	4.0%	7.6%	10.2%	9.4%	11.7%
Dow Jones Global ex-U.S.	-0.3	-11.7	-9.4	3.2	0.3	4.7
10-year Treasury Note (Yield Only)	3.2	NA	2.3	2.3	2.8	3.8
Gold (per ounce)	-1.7	-6.6	-5.7	3.6	-1.1	4.9
Bloomberg Commodity Index	-1.2	-6.0	-5.2	-0.5	-7.7	-4.4
DJ Equity All REIT Total Return Index	3.5	2.3	1.2	8.2	9.6	13.9

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

IS A ZEAL OF ZEBRAS A BETTER INVESTMENT THAN A BLESSING OF UNICORNS? Collective nouns are the names we use to describe collections or significant numbers of people, animals, and other things. The *Oxford English Dictionary* offered a few examples:[3, 4]

- A gaggle of geese
- A crash of rhinoceros
- A glaring of cats
- A stack of librarians
- A groove of DJs

In recent years, some investors have shown great interest in blessings of unicorns. 'Unicorns' are private, start-up companies that have grown at an accelerated pace and are valued at $1 billion.[5, 6]

In early 2018, estimates suggested there were approximately 135 unicorns in the United States. Will Gornall and Ilya A. Strebulaev took a closer look and found some unicorns were just gussied-up horses, though, according to research published in the *Journal of Financial Economics*.[5]

The pair developed a financial model for valuing unicorn companies and reported, "After adjusting for these valuation-inflating terms, almost one-half (65 out of 135) of unicorns lose their unicorn status."[5]

Clearly, unicorn companies must be thoroughly researched. There is another opportunity Yifat Oron suggested deserves more attention from investors: zebra companies. Oron's article in *Entrepreneur* explained:[6]

> "Zebra companies are characterized by doing real business, not aiming to disrupt current markets, achieving profitability and demonstrating it for a while, and helping to solve a societal problem…zebra companies…are for-profit and for a cause. We think of these businesses as having a 'double bottom line' – they're focused on alleviating social, environmental, or medical challenges while also tending to their own profitability."

Including both types of companies in a portfolio seems like a reasonable approach.

If you were to choose a collective noun to describe investors, what would it be? An exuberance? A balance? An influence?

Weekly Focus – Think About It

"In his learnings under his brother Mahmoud, he had discovered that long human words rarely changed their meanings, but short words were slippery, changing without a pattern…Short human words were like trying to lift water with a knife." *Robert Heinlein, American science fiction writer*[7]

Keep the Faith. Faith is the Spirit.

Carl

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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** The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.*
** The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.*
** Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.*
** The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.*
** The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.*

* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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Sources:
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[1] The FT 400 was developed in collaboration with Ignites Research, a subsidiary of the FT that provides specialized content on asset management. To qualify for the list, advisers had to have 10 years of experience and at least $300 million in assets under management (AUM) and no more than 60% of the AUM with institutional clients. The FT reaches out to some of the largest brokerages in the U.S. and asks them to provide a list of advisors who meet the minimum criteria outlined above. These advisors are then invited to apply for the ranking. Only advisors who submit an online application can be considered for the ranking. In 2016, roughly 980 applications received; 40.8% (400) were selected for the final list. In 2018, roughly 880 applications received; 45.5% (400) were selected for the final list. The 400 qualified advisers were then scored on six attributes: AUM, AUM growth rate, compliance record, years of experience, industry certifications, and online accessibility. AUM is the top factor, accounting for roughly 60-70 percent of the applicant's score. Additionally, to provide a diversity of advisors, the FT placed a cap on the number of advisors from any one state that's roughly correlated to the distribution of millionaires across the U.S. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of advisor's future performance. Neither Raymond James nor any of its Financial Advisors pay a fee in exchange for this award/rating. The FT is not affiliated with Raymond James.

[2] The Forbes ranking of Best-In-State Wealth Advisors, developed by SHOOK Research is based on an algorithm of qualitative criteria and quantitative data. Those advisors that are considered have a minimum of 7 years of experience, and the algorithm weighs factors like revenue trends, AUM, compliance records, industry experience and those that encompass best practices in their practices and approach to working with clients. Portfolio performance is not a criteria due to varying client objectives and lack of audited data. Out of 21,138 advisors nominated by their firms, 2,213 received the award. Neither Forbes nor SHOOK receives a fee in exchange for rankings. This ranking is not indicative of advisor's future performance, is not an endorsement, and may not be representative of individual clients' experience. Neither Raymond James nor any of its Financial Advisors or RIA firms pay a fee in exchange for this award/rating.

[3] Raymond James Chairman's Council Membership is based on prior fiscal year production. Re-qualification is required annually.