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EYE ON THE MARKET

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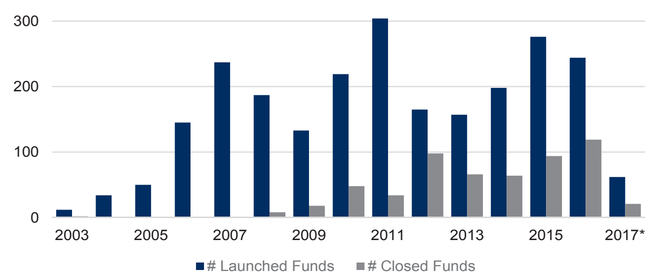
COMMENTARY ON SPECIFIC MARKET ISSUES AND ACTIONABLE IDEAS TO CONSIDER

Eye on the Market (EotM) believes that modern acronyms and emojis parallel certain behaviors investors display. Driven by greed or fear, investors have participated in periods of frenzied buying and selling for *fear of missing out* (FOMO). On the other hand, if you were to show patience through such periods, you would be *taking your time* (TYT). Finally, the shock and surprise resulting from an investor who realizes an asset is not performing accordingly would make them say *oh my god* (OMG).

FEAR OF MISSING OUT

Over the last 15 years, there has been tremendous growth in exchange-traded funds (ETFs), both in the sheer number of funds and in the amount of assets that are being allocated to them. Between 2003 and 2011, 1,321 ETFs launched while only 110 funds closed. This equates to nearly 12 ETFs launching for every one ETF closing. Since 2012, the dynamic has changed; there have been approximately 2.5 ETFs launching for every one closing. Chart 1 shows that investors are not only allocating capital to ETFs, but asset managers are launching more and more new ETFs. While these new ETFs may satisfy investor demand, they may also be driven by asset managers' FOMO in the ETF sphere.

Chart 1



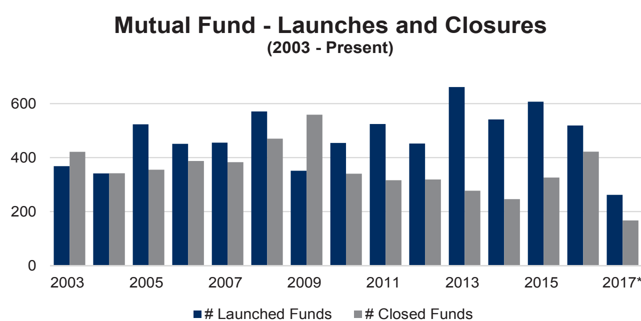
Source: Morningstar Direct and Raymond James. *All data is as of May 17, 2017.

"... U.S. equities have had a good run, but, at some point, European equities will catch up. This reinforces the fact that investing takes time."

As more ETFs are launched and subsequently closed, it is helpful to benchmark this trend against the number of mutual funds launched and closed.

Chart 2 shows the number of mutual funds launched and closed each year over the last 15 years. The ratio of launches to closures is much lower, at 1.4 launches for every closure over this period of time. EotM believes this reflects a maturing mutual fund industry.

Chart 2



Source: Morningstar Direct and Raymond James. *All data is as of May 17, 2017

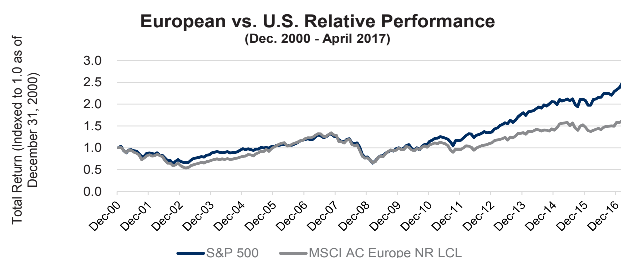
In fact, the increase in closures between 2014 and 2016 is likely a result of mutual fund companies realizing that FOMO was not necessarily a good reason to bring new funds to the market. So what should an investor do in order to avoid FOMO? She should consider how this new strategy would impact her existing asset allocation. If it increases her ability to meet her objectives without taking on undue risk, then it may be beneficial to add the new strategy.

IDK, TYT

EotM believes that if you are struggling with FOMO, you should take a step back. Furthermore, if you are thinking about whether you should allocate capital to the "shiny new" investment and you say *I don't know* (IDK), then EotM would encourage you to TYT. Is the investment opportunity one that is in line with your objectives? Does the strategy improve the risk/return profile of your overall asset allocation? Are market conditions such that you will be rewarded over the long-term for making this allocation?

As a point of reference, if an investor was allocating capital to developed market equities and was deciding between U.S. and European equities, one factor to analyze is the upside potential at this point in the market cycle. Readers know that EotM believes that there are several core tenets to investing. One of these tenets is that, over time, markets eventually revert back to their long-term average (also known as "mean reversion"). Chart 3 shows that beginning in 2010, the S&P 500 (a proxy for U.S. large-cap equities) has outperformed European equities (as measured by the MSCI Europe Index). It is worth noting that prior to this period, the two indices moved in a much more similar pattern.

Chart 3



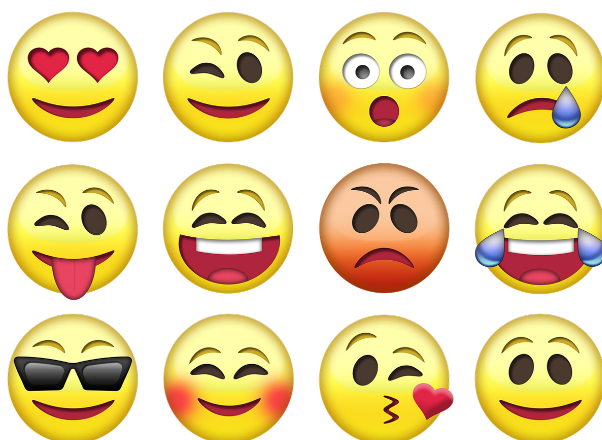
Source: Morningstar Direct and Raymond James. All data is as of April 30, 2017. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The MSCI Europe Index is market-weighted index that captures large- and mid-capitalization companies across 15 developed countries in Europe. LCL indicates an index that is listed in local currency. This listing represents the theoretical performance of an index without any impact from foreign currency fluctuations.

As shown by this chart, U.S. equities have had a good run, but, at some point, European equities will catch up. This reinforces the fact that investing takes time. EotM knows that attempting to precisely predict when this change will occur can easily result in an OMG moment (especially when it does not work out as planned).

FOR WHAT IT'S WORTH

As an investor, you are likely asking yourself, "How can I minimize an OMG moment?" For what it's worth, the solution is both easy and hard. The easy part is ensuring that your investments are in line with your long-term objectives.

The hard part is remaining disciplined in following this, as you are likely going to be bombarded with information about new investment products and approaches. You will also be facing an ever-changing market environment that may test your ability to withstand the peaks and valleys over numerous market cycles. If you remain methodical in your approach, you may benefit from compounded returns over time. EotM believes allocating capital to professional managers that have a long history of generating attractive results over the course of time is crucial.



SIDE NOTE

Acronyms and abbreviations are not a new phenomenon; they date back to antiquity. They took on wider usage in the 19th century when corporate names were abbreviated to fit in places that had limited space, such as ticker tape (for example, Atlantic Telephone and Telegraph Company shortened its name to AT&T). Regardless of the performance of the markets, we investors should all *laugh out loud* (LOL) or even *roll on the floor laughing* (ROTFL) from time to time, as it would make us ☺.

Investors should carefully consider the investment objectives, risks, charges and expenses of mutual funds and ETFs before investing. The prospectus contains this and other information about mutual funds and ETFs. The prospectus is available by contacting the fund family and should be read carefully before investing.

Diversification and strategic asset allocation do not ensure a profit or protect against a loss. The process of rebalancing may carry tax consequences.

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Past performance does not guarantee future results. There is no assurance these trends will continue.

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