Everybody's Talkin'

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The purpose of this article is to help remind financial advisers and their investors of the power of long-term investing and the potential cost of investor fear.

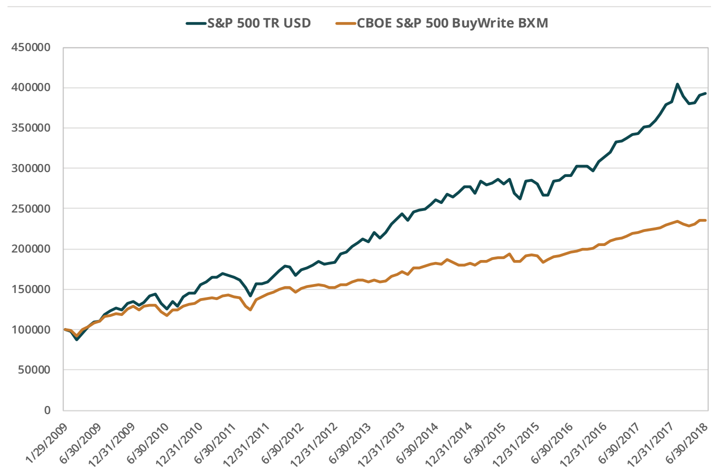
The S&P 500 Index has averaged an annual return of 15.93% over the last 9+ years (1/30/09 through 6/30/18), but we suspect many investors did not fully participate in this rally. To help make our point, let's begin with the lyrics of a song written and recorded in 1966 by Fred Neil, then made into a hit in 1969 by Harry Nilsson and re-recorded by many artists over the years, including Jimmy Buffett.

> *__Everybody's Talkin'__: "Everybody's talkin' at me - I don't' hear a word their sayin' - only the echoes of my mind. People stoppin' and starin' - I can't see their faces - Only the shadows of their eyes. I'm goin' where the sun keeps shinin' - through the pourin' rain - Going where the weather suits my clothes."*

Let's focus on that last line, "Goin' where the weather suits my clothes." If a New York resident favored flip flops, shorts and a tee shirt, it would be costly and impractical to constantly go where the weather suits his clothes. Such an endeavor would disrupt personal relationships and mean hopping islands, continents and hemispheres. The less expensive and more practical alternative would mean changing clothes to adapt to the changing weather.

Investors can either accept, and adapt to, stock market behavior (changing weather) or try to make the stock market suit them (and their clothes, so to speak). The following is a graph that shows the S&P 500 Index more than tripled between January 30, 2009, and June 30, 2010. During this market rally, there have been some storms and volatility along the way. Rather than remain fully invested, in an attempt to reduce volatility and make the market suit them, some investors held cash, attempted short-term market timing, wrote call options, bought put options, sold short or invested in "alternatives." Instead of carefully considering the weather report, then putting on a raincoat, they traveled all over the investment map to find the weather that suited their clothes. Just as traveling around the world in order to keep wearing flip flops is expensive, jumping out of the market to stay 'comfortable' can be costly. It is also, we would argue, unnecessary and counterproductive. After all, why do you need an alternative to tripling your money in eight and a half years? We contend our "buy & hold" approach has been more effective than trying to time market peaks and bottoms and haphazardly jumping in and out of the market.

Investment Growth



The data quoted represents past performance, which is no guarantee of future results.

As an example of the potential costs of reducing portfolio volatility, the Chicago Board Option Exchange's S&P 500 BuyWrite Index allows you to track the performance of a hypothetical strategy of holding the S&P 500 Index and writing call options against the equities. Writing options generally sacrifices some upside potential, but the strategy is intended to provide a downside cushion with lower volatility. We would argue that writing options during a bull market could be interpreted as an effort to make the behavior of the stock market suit the investor's risk tolerance. As seen in the chart above, if someone had invested one hundred thousand dollars in the S&P 500 Index on January 30, 2009 and held through June 30, 2018, that initial investment would have grown into $393,000. In contrast one hundred thousand dollars invested in the buy-write strategy would have grown to only $235,850. In this one example, focused on the market rally, it cost about $157,150 to make the stock market suit the investor's risk tolerance.

If you are investing for retirement, your goal is presumably to accumulate enough wealth to stop working and have enough money to do what you want. For some that might mean buying a home in Florida, Arizona or another warm climate. For others, it might mean traveling around the world. In any case, the person selling the house or travel package does not take risk adjusted returns as payment. They take money, and the investor who bought smartly and held the last 9+ years has been on a wealth accumulation path and may today be in a position to afford that house or trip. We salute them and hope that our bullish analysis and commentary have encouraged them along the way.

Of course, we are not suggesting that investors foolishly ride through a "hurricane" that they have been warned is coming. At ICON, we believe it is important to recognize the behaviors and characteristics of bull markets and bear markets and to know which one you are in. We have used our valuation methodology to help identify and navigate this bull market. According to our methodology, stock prices, on average, during this period were generally below our estimate of intrinsic value. That is, as the market moved higher over this time period, so did our valuations. From our point of view, this justified continued investment throughout the rally. We have seen other elements indicative of a bull market including classic "wall of worry" factors: that is, negative investor sentiment for much of the last decade, growing corporate earnings, and declining interest rates. In time we expect some of the behaviors and characteristics that often precede bear markets will appear, such as over-pricing as measured by ICON's valuation methodology. When we see that, we will need to move to a more defensive posture.

<u>Continuing the Lyrics</u>:

"Bankin' off of the northeast winds - Sailin' on a summer breeze - Skippin' over the ocean like a stone."

Looking back at the return chart since 2009, one might be inclined to think that staying invested would have been like "Sailin' on a summer breeze". We understand that riding through this bull market may not have felt like a summer breeze at times, as investors would have had to ride through some market dips and some volatility. The market, like the ocean, has waves, but successful investors effectively banked off of the winds to skip over the waves like a stone. Over this 9+ year period, we published bullish reports and analysis in an effort to guide investors through the rough spots that punctuated the rally. At ICON, we like to believe we take an active approach not only to investment management, but in helping our investors meet their goals in an ever changing environment.

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Investing in securities involves risks, including the risk that you can lose the value of your investment. There is no assurance that the investment process will consistently lead to successful results.

The unmanaged Standard & Poor's (S&P) 500 Index is a market value-weighted index of large-cap common stocks considered representative of the broad market. Total return figures for the index assume change in security prices and the reinvestment of any dividends or distributions but do not reflect deductions for commissions, management fees, and expenses. Individuals cannot invest directly in an index.

The CBOE S&P 500 BuyWrite Index (BXM) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index. The BXM is a passive total return index based on (1) buying an S&P 500 stock index portfolio, and (2) "writing" (or selling) the near-term S&P 500 Index (SPXSM) "covered" call option, generally on the third Friday of each month. The SPX call written will have about one month remaining to expiration, with an exercise price just above the prevailing index level (i.e., slightly out of the money). The SPX call is held until expiration and cash settled, at which time a new one-month, near-the-money call is written. Please visit the BXM FAQ for more information about the construction of the index.

ICON's value-based investing model is an analytical, quantitative approach to investing that employs various factors, including projected earnings growth estimates and bond yields, in an effort to determine whether securities are over- or underpriced relative to ICON's estimates of their intrinsic value. ICON's value approach involves forward-looking statements and assumptions based on judgments and projections that are neither predictive nor guarantees of future results. Value readings are contingent on several variables including,without limitation, earnings, growth estimates, interest rates and overall market conditions. Although valuation readings serve as guidelines for our investment decisions, we retain the discretion to buy and sell securities that fall beyond these guidelines as needed. Value investing involves risks and uncertainties and does not guarantee better performance or lower costs than other investment methodologies.

Data Source: Morningstar

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