Comment

The 60/40 Portfolio: The Grass Harp

Thomas Schneeweis

March, 2016

While I have certainly read too much into Capote's Grass Harp (which has been roundly criticized) I still like the story. For those who have not read it, it centers on a treehouse in which many characters come and go and around which the struggles of life's questions are discussed and enacted. In the end, it is decided that the confrontations are simply to be forgotten. Through time, life tells its own story, people come, people go, and things happen so sit back and listen.

How often in life is one given a simple solution to an often difficult question? In the investment world, the question is if there is a natural asset allocation among investible asset classes that offers the investor the best of all worlds; that is, an acceptable return at an acceptable risk. For many, the 60/40 portfolio is just that simple solution; that is, according to its proponents, it provides the just the necessary diversification among competing assets (e.g., stocks and bonds) such that as the economic winds blow it provides reasonable return for a wide range of investors. For many, as many investment strategies come and go (risk parity, smart beta), the 60/40 portfolio continues as the story of investment life. Moreover, its history is intertwined with the many characters who have come to damn it and those who come to praise it. As I often do, the 60/40 portfolio is the 'investment' tree house evoked in Truman Capote's the Grass Harp in which the many characters come and go while learning the story of life. While I have certainly read too much into Capote's Grass Harp For those who have not read it, it centers on a treehouse in which many characters come and go and around which the struggles of life's questions are discussed and

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

enacted. In the end, it is decided that the confrontations are simply to be forgotten. Through time, life tells its own story, people come, people go, and things happen so sit back and listen.

As mentioned, if that story could be written for investments it might be for many the 60/40 portfolio. Times come and time goes and it remains timeless. It is a simple story and even somewhat inspiring story but as for the most of us it remains incomplete (perhaps as Capote's own story). Nowhere does the 60/40 it tell us what stocks to own or what bonds; that is for stocks U.S. or non U.S., value or growth, large or small. For bonds, low risk or high risk, short maturity or long, high or low ratings.

As important where did the commonly accepted 60/40 stock bond portfolio it come? While it is impossible to track down completely, a search of the literature seems to focus on research conducted in the 1970's and 1980's which used data from the newly available Ibbotson and Sinquefeld data bases. These and other data bases around the time provided for the first time a historical data base going back to the 1930. To this day for many the period since 1930 forms the basis for the results that for a manager whose main goal was to provide a reasonable return to risk tradeoff would hold a 60/40 portfolio.

It did not take long, of course, for many investment personnel to realize the potential issues in using this simple portfolio as a common benchmark by which all other managers would be judged. First of all, concentrating only on the return side of the investment question left unanswered the liability risks of an investor (profit or non-profit alike). Thus, the simple risk side was largely misunderstood in a larger context. Second, concentrating on the U.S. markets from the 1930 on missed the opportunities available in many other emerging as well as non-emerging markets. The portfolio also had little to say about modern developments in asset allocation including portfolio optimization models which attempted to fix an asset allocation based on desired risk and expected return and risk relationships among securities.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Thus the 60/40 portfolio had many ups and downs. While many are aware of its historical basis as well as its lack of a theoretical basis, it does provide for many the benchmark by which other decisions are made. In short, if not 60/40 what? For those raised on the fairy tale of the Goldilocks and the three Bears, it is like porridge (not too hot and not too cold) or like the beds (not too hard and not too soft).

The biggest concern, however, is that each bed and each bowl of porridge is taste specific and may change with time and age. Moreover, markets change quickly. What is just right can become cold very quickly and sometimes someone wants or needs a soft bed. If recent behavioral research has confirmed anything about investments, is that we often overweight recent events. The call to the 60/40 portfolio evoked a unique time and place in the historical returns of the United States. That having been said, portfolio managers are faced with the fact, that if their portfolios are substantially different and the investment god's work against them, they will be asked by their investors and often men and women true why they acted against history and put their judgement above those of the past. Faced with this reality, many investors and investment managers remain wedded to the 60/40 portfolio. If not quite right, at least it can be shown historically to be not quite wrong.

For years, I have been writing articles and books around the central thesis that one should not simply used the past as a forecast of the future, that for the modern investors the traditional 60/40 stock bond portfolio should be D.O.A.; that is, dead on arrival. Today the existence of a wide new range of investment vehicles (futures and options); investment techniques (dynamic and non-path dependent portfolio insurance), a changing global investment environment and trading environment in which a range of new alternative investments exist and deserve at least a foot at the table or a place in the discussion are available.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Still talk is cheap and whiskey costs money. The most recent discussion centers on understanding the underlying risks of the 60/40 stock bond portfolio. These risks have changed based on the current factors driving markets (interest rates, regulation). One is now obligated to understand the fundamental factors in a portfolio and their sensitivity to anticipated market conditions. If one has no idea what those are and what their affects may be, then the simple naïve 60/40 historical based portfolio is an alternative, but a simple solution does not mean reduced risk. Sometimes the simplest solution is the one carrying the biggest risks. If one has to pay more to reduce risk and complexity then there should be a cost to simplicity. So perhaps the answer often is to take a simple approach and sit back and see the world flow around us. If I remember that was the conclusion to "The Grass Harp."

Looking forward to your comments.

Tom Schneeweis

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Professional Bio: Thomas Schneeweis is the Co-Founder and the current Director of Research at YES Wealth Management, a Registered Investment Advisory Firm in the Minneapolis/St. Paul area in Minnesota (Email: tschneeweis@yeswealth.com and Website: www.yeswealth.com). He was the Michael and Cheryl Philipp Professor of Finance and Founding Director of the Center for International Securities and Derivatives Markets at the Isenberg School of Management, University of Massachusetts-Amherst. He was also the Founding Editor of The Journal of Alternative Investments and the Managing Editor for over fifteen years. He is Co-Founder of the Chartered Alternative Investment Analyst Association (CAIA: www.caia.org) and the Founder of Chartered Alternative Investment Analyst Foundation. He is also the Co-Founder of the Institute for Global Asset and Risk Management (INGARM: www.ingarm.org). He has published more than 100 articles in the area of investment management and is the co-author/editor of over six books in the area of investment management including New Science of Asset Allocation (John Wiley, 2010) and Postmodern Investment: Facts and Fallacies of Growing Wealth in a Multi-Asset World (John Wiley, 2012). He has been awarded with the CAIA Award for Research in the Area of Alternative Investments (2012). He has been a frequent speaker on financial news programs and contributor to various financial publications. He received his Ph.D. from the University of Iowa, M.A. from University of Wisconsin, and a B.A. from St. John's University.

He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance and Director of Research at Ursa Capital, LLC which managed an approximately $4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately $1 billion commodity-based investment firm (Alternative Investment Analytics). For over thirty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

He is also currently President of Quantitative Investment Technologies, LLC an investment management firm specializing in downside risk management and investment strategy replication programs (Email: thomas@quantinvesttech.com and website: www.quantinvesttech.com) and the founder of TRS Associates (Email: thomas@trs-assoc.com and Website: www.trs-assoc.com), a financial consulting firm. A collection of his other publications, comments and current writings can be found through his personal email: Trschneeweis@gmail.com or at his personal website: www.thomas@tschneeweis.com.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Comment

The Cannabis Conundrum
Or
The Seven Percent Solution Revisited

Thomas Schneeweis

June 2016

What could be better than a miracle cure that was a solution to the boredom of everyday life and that left you ready to take on the world? This could be our own little "Seven Percent Solution." Unfortunately, the acceptance of the little leafy green relaxer while seen as an easy solution for a society tired of the daily grind of work, family and societal requirements has come with it a number of unforeseen costs that in part were similar to those of Sherlock's day.

Perhaps the best known "Sherlock Holmes" adventure is one entitled "The Seven Percent Solution". The term "Seven Percent Solution" refers to the fact that in the mid-to-late 1800s, many doctors touted a cocaine based concoction that was delivered in a 'seven percent solution' of water (you will have to go to the internet to find out how to make a seven percent solution). The drug was considered a wonder drug, providing not only stimulation but a wonderful feeling of clarity as well. As others in his day, Sherlock Holmes felt the drug helped him shut out the distractions of the real world. Now the truth is that the adventure described in the "Seven Percent Solution" was never an original Sherlock Holmes' story but was created in the 1990's as the title of a movie which used Sherlock Holmes as the primary actor. But when has truth been a core of the movie industry or much of what is sold as "truth" in the entertainment industry including the portrayal of drugs as a somewhat exciting, vibrant industry that has

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

little negative impact on the human condition. What is true about the movie is that in the story Sherlock was often bored by life and often used a little cocaine as a means to deal with the stress of 18th century live. Our Victorian forefathers were a little more open about how people sought out relaxation back in the day. The fact that opium dens and other forms of drugs (morphine) had a real cost on society were overlooked in a world in which crime and poverty were a central part of life. During the Victorian era, many drugs including cocaine were completely legal and freely available.

It is somewhat surprising that today we face something similar conditions in the United States in that we seem to be replicating the Victorian era in our acceptance of various forms of drug use as a normal part of human activity. I sometimes wonder if the youth culture of today would push the freedom of drug use if they knew how passé their seeming intoxication with various drugs are and that what they regard as new and hip is old and dull. While the societal cost of “hard drugs” are still regarded as unacceptable today, we as a society have become increasingly comfortable with softer more leafy green alternatives. Even the words “cocaine and crack cocaine” and “meth addiction” seems off-putting compared to the use of the word “marijuana” or in its more hip term “Mary Jane” or “MJ.” Even the use of the alternative word for marijuana; that is the word “Cannabis,” seems more the name of a character out of William Shakespeare “Twelfth Night” than a deadly drug. Popular culture increasingly has become accepting of “Mary Jane” as a kind of soft “Kiddy” porn. Not so hard as to lead to a life of perdition but not so soft as to be grouped with one’s father’s “Jack Daniels” or one’s Mother’s “Skinny Vodka Brandy.” As a result, the current Generation X and Millenniums drug of choice (MJ) seems even a little exciting to today’s younger generation who see it as an everyday aspect of life, sold in movies, music halls and by the kid down the street. Not to be undone, the older “Baby Boomers” have joined the charge if for no other reason than a legal trip back to the 1960’s where the whole thing started.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

With the support of both the younger and the older, within the past decade the public perception of "MJ" has changed from "Your brain on Drugs" to "Drugs for your brain." What could be better than a miracle cure that was a solution to the boredom of everyday life and that left you ready to take on the world? This could be our own little "Seven Percent Solution." Unfortunately, the acceptance of the little leafy green relaxer while seen as an easy solution for a society tired of the daily grind of work, family and societal requirements has come with it a number of unforeseen costs that in part were similar to those of Sherlock's day. Individuals often used the drug of choice to evade the responsibilities of life but thereby leave their families and others to take over where they have left off. (Even Sherlock in the above mentioned movie took a little hiatus trying to remove his addition leaving the cost of sleuthing to others in his absence). Still, the Cannabis craze has its supporters. While "Mary Jane" often acts a little more like her crazy brother "Billy Bong" for many it offers solace in a soul less society. When its sale is overlaid with a "social need" or "personal freedom" sticker, it offers for liberals an additional means raise taxes to provide funds for a wide range of social needs to protect the down trodden classes while providing their normal opponents, the right wing Libertarians, a means to push their individual "do not treed on me" agenda.

Herein lays the Conundrum. For both sides of the political spectrum the use of "Cannabis" has stepped its leafy toes on both the left and the rights "feet." For the environmentally conscious, we now know that "Mary Jane" requires large amounts of energy to grow those little leafy based pick me ups. In those States not blessed by the required sun and rain, it must be manufactured often at a large cost in terms of energy use (up to 3 to 4% of normal usage) to light up the greenhouse required to produce a constant quality product. This increased need or demand for energy must come from somewhere and often though reliance on older nuclear or coal-based plants. In addition, smaller independent growers who have

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

historically supported a secular agenda have seen their operations replaced by major corporations. The ability to offer the product now managed by the "Very Man" they fought for years that is "the regulatory arm of the U.S. Tax Service." For those on the right and with a libertarian focus and who favor the rights of man to hold guns often have a hard time seeing those very guns used to protect the now legally grown substance from individuals attempting to gain direct access to the product. Even worse they have no answer for the place of the Federal Government in what may be a State's rights issue and no one has answered the free market problem that eventually the product should find a natural production only in those states fit for production. In short there is a Cannabis Conundrum on both the left and the right in which "Mary Jane" creates conditions that run right into the socially aware, environmentally green agenda as well as into those favoring the rights of corporate governance and personal rights and responsibilities. What is a Democrat or a Republican, who may want to support "Mary Jane" but are concerned with the negative personal and societal impacts to do? How can one feel good that when the cigarettes have been eliminated from the front shelves of the local drug store are now readily available in the back of the store with its associated "F"armacie?

It is my suggestion that they do nothing. First inconsistencies between what one says one believes and how one acts is a central part of either political party or social class. An easier solution is to overwhelm the bad with the good. One need only to point out with every bit of bad comes a host of good. Currently much of Cannabis in imported from outside the U.S. Those in the Democratic Party who are against open trade should view this as a means to support a U.S. based, grown and harvested product as well as the number of new jobs (federal and state) required to make sure that taxes are raised and that individuals at their place of work are not prejudiced for their medical use of the desired drug. The Republicans have to sign on to this also but I encourage them to think of the non-government jobs that are

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

saved in the coal country as the increased demand for energy invigorates that industry. The new 'MJ' industry and its associated business may well increase employment overall by 7% of the workforce; a true "Seven Percent Solution". Finally, a common ground where the right and the left can join hands or at least share a joint.

And here is the clincher. If it all goes up in smoke, who cares? Just chalk it up to a little bit of "Merry Jane."

Looking forward to your comments.

Tom Schneeweis

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Professional Bio: Thomas Schneeweis is the Co-Founder and the current Director of Research at YES Wealth Management, a Registered Investment Advisory Firm in the Minneapolis/St. Paul area in Minnesota (Email: tschneeweis@yeswealth.com and Website: www.yeswealth.com). He was the Michael and Cheryl Philipp Professor of Finance and Founding Director of the Center for International Securities and Derivatives Markets at the Isenberg School of Management, University of Massachusetts-Amherst. He was also the Founding Editor of The Journal of Alternative Investments and the Managing Editor for over fifteen years. He is Co-Founder of the Chartered Alternative Investment Analyst Association (CAIA: www.caia.org) and the Founder of Chartered Alternative Investment Analyst Foundation. He is also the Co-Founder of the Institute for Global Asset and Risk Management (INGARM: www.ingarm.org). He has published more than 100 articles in the area of investment management and is the co-author/editor of over six books in the area of investment management including New Science of Asset Allocation (John Wiley, 2010) and Postmodern Investment: Facts and Fallacies of Growing Wealth in a Multi-Asset World (John Wiley, 2012). He has been awarded with the CAIA Award for Research in the Area of Alternative Investments (2012). He has been a frequent speaker on financial news programs and contributor to various financial publications. He received his Ph.D. from the University of Iowa, M.A. from University of Wisconsin, and a B.A. from St. John's University.

He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance and Director of Research at Ursa Capital, LLC which managed an approximately $4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately $1 billion commodity-based investment firm (Alternative Investment Analytics). For over thirty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

He is also currently President of Quantitative Investment Technologies, LLC an investment management firm specializing in downside risk management and investment strategy replication programs (Email: thomas@quantinvesttech.com and website: www.quantinvesttech.com) and the founder of TRS Associates (Email: thomas@trs-assoc.com and Website: www.trs-assoc.com), a financial consulting firm. A collection of his other publications, comments and current writings can be found through his personal email: Trschneeweis@gmail.com or at his personal website: www.thomas@tschneeweis.com.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Comment

Gender Inequality
The Proof is in the Pay

Thomas Schneeweis

September, 2016

There is a healthy debate (mostly among women) that women have been treated unfairly in the workplace and especially when it comes to equal pay for equal work. I have always been confused as to these demands. If anything, if I was a women I would have not demanded fairness; that is, the last thing I want is fairness I want the bias to be in my favor. I want unique benefits because I am a women, for example I want the opportunity of greater pay for equal work. In fact, it is my view that the fact that women are not paid more than men in some professions is indicative of possible gender inequality since it is obvious that in some professions (e.g., basketball) most men make more than most women if for no other reason that there exist few six foot nine women with a twenty foot jump shot.

There are a number of places a man should never go and questions he must never ask (or at least never answer). But this blog has never been for the faint of heart, so here I go to a topic where few men has gone before or at least successfully returned; that is, gender inequality. There is a healthy debate (mostly among women) that women have been treated unfairly in the workplace and especially when it comes to equal pay for equal work. I have always been confused as to these demands. If anything, if I was a women I would have not demanded fairness; that is, the last thing I want is fairness I want the bias to be in my favor. I want unique benefits because I am a women, for example I want the opportunity of greater pay for equal work. In fact, it is my view that the fact that women are not paid more than men in some professions is indicative of possible gender inequality since it is obvious that in some professions (e.g.,

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

basketball) most men make more than most women if for no other reason that there exist few six foot nine women with a twenty foot jump shot.

Let me explain my reasoning. The oft quoted statistic is that women are paid about 73% of what men make. Ok, we know that that number is meaningless. Studies show that there more women (for whatever reason) are in lower paying jobs (e.g., teaching) in which the marginal revenue per employee is low (six year olds simply to done pay much for their education The Dean (a women) of the School of Business where I received my PhD, said it best when I was in one of her classes. She asserted then that 80% of women lock themselves out of 80% of the high paying jobs by the time they are 16 for the simple fact that they fail to take advanced STEM (science, technology, engineering, and math) courses that prepare women for certain higher paying professions (engineering, neuroscience, finance) with greater marginal revenue per employee. Now this number may have decreased slightly but again, let us say today that 60% of women lock themselves out of 60 % of the high paying jobs by the time they are 16 due to the simple fact that a lower number of them take the requisite STEM (science, technology, engineering or math) courses that would enable them to take those majors in college.

Why? I don't know and I hope every woman's organization (and men's) would roll up their sleeves and start getting women to get prepared for these jobs. Every adult woman should be encouraged and perhaps forced to prepare themselves for STEM based majors. It should be of concern to us all that current SAT and other placement scores show a 20% to 30% lower scores in math and science for women than men. Until this is addressed, men will continue on average to have higher wages than women across higher paying STEM based jobs.

OK, but there is still gender inequality within the STEM area, that is, for equal work, men get paid more. OK, but if this is true what do we mean by equal work? One basis for the difference in reported pay

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

the “motherhood inequality;” that is, given the opportunity of working extra hours, weekends etc. women often defer not to work the extra time whereas men will often come earlier and leave later, work weekends, travel as often as necessary (e.g., the road warrior). If one adjusted for the fact that in today’s society women are the ones having children and often taking care of the kids, it is not that they are not getting equal pay less for equal work but it is less pay for less work (unless we find a way to pay them for the societal good of taking care of kids).

OK what of the women who is willing to work the long hours that ‘non-household bound men’ adjust to. How can they get the freedom to compete on the same ‘road warrior’ mentality jobs? Well for the first part, they have to find a man who is willing or able to stay at home or take over her ‘maternal chores” if she has them. There are only a fixed number of let us say ‘high pay’ engineering jobs. So if I (the women in this case) want one of the ‘high pay, I don’t know my kids names’ engineering jobs, I have to find a man who is willing to give his up his job if I have ‘material demands”. I suggest a special website for burnt out males who would rather take lower pay for less work and watch that women’s kids at weekend rehearsals. Even then I need to step on or over one of the other male engineers who currently has one of those high paying jobs. One cannot simply expect a person who has spent 60 to 70 hours a week grinding up the corporate ladder to simply step aside without some reason.

No this is not easy. One can go on. It should surprise no one that in studies of gender pay inequality, the pay is similar between genders when each is producing an output that is similar in nature and that it is difficult to see the different gender based on output. It is more dissimilar in those areas where hours worked and uncertain and inflexible schedules are the norm.

Some studies have accepted this fact. They put the play for pay inequality not directly on men per se but on the system. The system should not favor those who are willing to work more hours, travel more. It

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

should not favor those who in their early high school years dedicated hours to math and science course in contrast to those who want to have a life in high school. Instead, business should find ways to make sure that there is a premia put on work flexibility, on the special non-math skills that that women seemingly excel at. OK but which firms and who in those firms should pay that penalty. Should women who have worked hard to scale the pay ladder pay as much as men in give up their gains to women who wish to do less? Does intra-gender fairness have to be sacrificed on the altar of gender inequality?

But here is where I get back to my first point. Women should not have to give up their gains so that some women should “get theirs.” Women should get paid more than men for equal work in those professions where there are few of them, engineering etc. Firms for a number of reasons, may want to pay women more so that they indicate their social consciousness. We should pay women politicians more than men, since there are so few women seem willing to leave their jobs or family (see Howard Dean’s wife) for what is in fact is a terrible job in terms of the family time permitted. Not enough women on corporate boards. You bet; engineering firms want board members with engineering experience; finance boards want board members with finance experience. I understand the demand that they should diversify but in general one prefers and needs specific skills relative to general experiences but perhaps we need to pay those women who have gained those skills more than men. Basic economics means that assets in short supply should be worth more than similar assets in greater supply

So if I were a women, I want pay inequality. I want more pay for the same work as my male counterparts. I am simply in less supply. These women are the pioneers of women who take the math courses, work the longer hours, and let their counterparts take up the ’motherhood inequality”. Only after women are paid more for equal work, will other women see the ‘alpha’ in taking the courses necessary so that there are an equal number of women in high paying fields. Only if there is the incentive of gender pay

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

inequality for women will women have the incentive to work 80 hours a week and not know their kid's names. Of course, when that happens we may eventually have enough women in certain areas that the 'women pay premia' will disappear and we will have equal pay for equal work for all. Be careful what you wish for.

Looking forward to your comments.

Tom Schneeweis

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Professional Bio: Thomas Schneeweis is the Co-Founder and the current Director of Research at YES Wealth Management, a Registered Investment Advisory Firm in the Minneapolis/St. Paul area in Minnesota (Email: tschneeweis@yeswealth.com and Website: www.yeswealth.com). He was the Michael and Cheryl Philipp Professor of Finance and Founding Director of the Center for International Securities and Derivatives Markets at the Isenberg School of Management, University of Massachusetts-Amherst. He was also the Founding Editor of The Journal of Alternative Investments and the Managing Editor for over fifteen years. He is Co-Founder of the Chartered Alternative Investment Analyst Association (CAIA: www.caia.org) and the Founder of Chartered Alternative Investment Analyst Foundation. He is also the Co-Founder of the Institute for Global Asset and Risk Management (INGARM: www.ingarm.org). He has published more than 100 articles in the area of investment management and is the co-author/editor of over six books in the area of investment management including New Science of Asset Allocation (John Wiley, 2010) and Postmodern Investment: Facts and Fallacies of Growing Wealth in a Multi-Asset World (John Wiley, 2012). He has been awarded with the CAIA Award for Research in the Area of Alternative Investments (2012). He has been a frequent speaker on financial news programs and contributor to various financial publications. He received his Ph.D. from the University of Iowa, M.A. from University of Wisconsin, and a B.A. from St. John's University.

He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance and Director of Research at Ursa Capital, LLC which managed an approximately $4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately $1 billion commodity-based investment firm (Alternative Investment Analytics). For over thirty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

He is also currently President of Quantitative Investment Technologies, LLC an investment management firm specializing in downside risk management and investment strategy replication programs (Email: thomas@quantinvesttech.com and website: www.quantinvesttech.com) and the founder of TRS Associates (Email: thomas@trs-assoc.com and Website: www.trs-assoc.com), a financial consulting firm. A collection of his other publications, comments and current writings can be found through his personal email: Trschneeweis@gmail.com or at his personal website: www.thomas@tschneeweis.com.

Comment

The Pyramid in Modern Finance
"What Came First the Chicken or the Egg"

Thomas Schneeweis

December, 2016

The use of the word Pyramid in 'Finance' has had a checkered past. On the negative side, the word pyramid has been used in a variety of financial enterprises where a few individuals get rich at the top off of the payments of many folks at the bottom (see Ponzi scheme, Madoff…).[1] So often has the pyramid been used to entice individuals into certain types of investment that various government bodies have had to directly investigate various 'pyramid ventures' and to warn investors against similar "Pyramid or Ponzi schemes".

Given the negative stereotype of Pyramid Schemes in finance it would not be surprising that finance in general and investment in particular would have used other geometrical forms to describe the pros and cons of various investment enterprises. However, this of course was not always the case. While data presentation is an art and takes many forms, throughout history, the pyramid in general and in certain cases in the specific has been directly linked to money and finance. While not the focus of this article, for

[1] A Ponzi scheme or pyramid scheme is an investment fraud that involves the payment of purported returns to existing investors from funds contributed by new investors. Ponzi scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk. With little or no legitimate earnings, Ponzi schemes require a constant flow of money from new investors to continue. Ponzi schemes inevitably collapse, most often when it becomes difficult to recruit new investors or when a large number of investors ask for their funds to be returned.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

many the early Egyptian Pyramids were really large banks and the smaller ones in front just associated ATMs. Throughout the ages, attempts by many European archologies were merely false fronts to find the way into these banks. So important was the pyramid in finance that it found its way onto the America Dollar bill where it rests with the eye of providence. On the version of the seal that was eventually approved, the Eye is positioned above an unfinished pyramid of thirteen steps (again symbolizing the original States, but incorporating the nation's potential for future growth). The symbolism is explained by the motto that appears above the Eye: *Annuit Coeptis*, meaning "He [God] approves (or has approved) [our] undertakings".

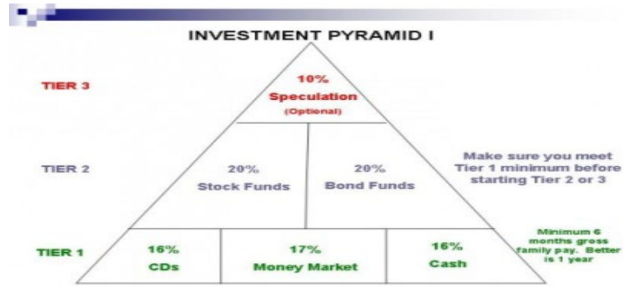
The short piece offers an alternative use of the pyramid in finance. Pyramids are found in a wide variety of marketing, management, and product descriptions. The most famous perhaps is the well-known "Food Pyramid' whereby individuals are given a simplified presentation as to what foods to eat and how often to eat them. It is the purpose of this article to propose our own "financial pyramid' whereby individuals can determine their own calorie count on the current and proposed investments and whether that "calorie count" reflects one's current and planned financial health. The result may be both financial and nutritional health for all America.

Looking forward to your comments.

Tom Schneeweis

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Sample Financial Calorie Count/Pyramid



1. Growth - Calorie count -2500 Tier 3
2. Balanced - Calorie Count - 1500 Tier 2
3. Conservative - Calorie Count - 500 Tier 1

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Professional Bio: Thomas Schneeweis is the Co-Founder and the current Director of Research at YES Wealth Management, a Registered Investment Advisory Firm in the Minneapolis/St. Paul area in Minnesota (Email: tschneeweis@yeswealth.com and Website: www.yeswealth.com). He was the Michael and Cheryl Philipp Professor of Finance and Founding Director of the Center for International Securities and Derivatives Markets at the Isenberg School of Management, University of Massachusetts-Amherst. He was also the Founding Editor of The Journal of Alternative Investments and the Managing Editor for over fifteen years. He is Co-Founder of the Chartered Alternative Investment Analyst Association (CAIA: www.caia.org) and the Founder of Chartered Alternative Investment Analyst Foundation. He is also the Co-Founder of the Institute for Global Asset and Risk Management (INGARM: www.ingarm.org). He has published more than 100 articles in the area of investment management and is the co-author/editor of over six books in the area of investment management including New Science of Asset Allocation (John Wiley, 2010) and Postmodern Investment: Facts and Fallacies of Growing Wealth in a Multi-Asset World (John Wiley, 2012). He has been awarded with the CAIA Award for Research in the Area of Alternative Investments (2012). He has been a frequent speaker on financial news programs and contributor to various financial publications. He received his Ph.D. from the University of Iowa, M.A. from University of Wisconsin, and a B.A. from St. John's University.

He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance and Director of Research at Ursa Capital, LLC which managed an approximately $4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately $1 billion commodity-based investment firm (Alternative Investment Analytics). For over thirty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

He is also currently President of Quantitative Investment Technologies, LLC an investment management firm specializing in downside risk management and investment strategy replication programs (Email: thomas@quantinvesttech.com and website: www.quantinvesttech.com) and the founder of TRS Associates (Email: thomas@trs-assoc.com and Website: www.trs-assoc.com), a financial consulting firm. A collection of his other publications, comments and current writings can be found through his personal email: Trschneeweis@gmail.com or at his personal website: www.thomas@tschneeweis.com.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Comment

Past Versus Prologue

Thomas Schneeweis

March, 2017

This is the last commentary of the year and those that have been following these quarterly monologues (in reality they have been dialogues or trilogies or ….., since many of you have emailed me your own opinions which I have been gracious not to reprint or even worse hand them over to the police. Going forward let us just agree to disagree) have focused on the difficulty of using the past to forecast the future or even the ability to forecast the future using any source of into. It is even difficult to comment on the Past since most of us were never really there.

This is the last commentary of the year and those that have been following these quarterly monologues (in reality they have been dialogues or trilogies or ….., since many of you have emailed me your own opinions which I have been gracious not to reprint or even worse hand them over to the police. Going forward let us just agree to disagree) have focused on the difficulty of using the past to forecast the future or even the ability to forecast the future using any source of into. It is even difficult to comment on the Past since most of us were never really there.

So, while I can say that in the past I have done X, it is difficult to say that X can be used to forecast Y in the future. This is despite the oft used model form Y = Bo + BX where we assume that some historic X reflects some future Y with the assumption that we know B (which we do not). Of even greater concern is that while we may know X past, we do not know X future even if we should assume B stays the same.

Still, most investors believe that Past is Prologue; that is, we use the past as a means to determine where the future might be going. This is especially true in the financial world where asset prices are supposed to reflect future corporate earnings and the general health of the economy. So, what happens when the past offers no clear picture of where the markets are going. In recent months we have received conflicting information with corporate profits rising while GDP has not risen at the same pace. The stock market's past increases reflected the rising GDP and expected future corporate growth but if one looks at the recent softening of the stock market, interest rates and GDP the next months may provide an interesting if not friendly answer. Is the Stock Market saying corporate profits will soften or is it the other way around and we are just ready to take off? I guess we will have to just wait and see. No one said it would be easy.

For the past months, many commentators have been recommending that investors move away from fixed income and slowly move back into the U.S. stock market. As for equity markets outside of the U.S. concerns over Brexit and China growth has convinced many investors to lessen their foreign exposure. So, what has happened? The U.S. equity market has already grown almost 9% since December. For most, an excellent year and yet we are only six months into it.

So, what is an investor to do? Among U.S. stocks, the value and growth see-saw continues with value outperforming growth - just the opposite of 2016 which was the opposite of 2015. Are we now going to see the same for the rest of 2018 where those markets that performed well underperform going forward and those that underperformed surprise us going forward? I suggest not. Interest rates finally seem poised for an upward move and sometime into the future as rates stabilize at a higher rate some of the cash which has moved into stocks may return to the fixed income market. Only then (as they say), "when the tide goes out will we see who has their swimming suits on." that was the conclusion to "The

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Grass Harp."

Looking forward to your comments.

Tom Schneeweis

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Professional Bio: Thomas Schneeweis is the Co-Founder and the current Director of Research at YES Wealth Management, a Registered Investment Advisory Firm in the Minneapolis/St. Paul area in Minnesota (Email: tschneeweis@yeswealth.com and Website: www.yeswealth.com). He was the Michael and Cheryl Philipp Professor of Finance and Founding Director of the Center for International Securities and Derivatives Markets at the Isenberg School of Management, University of Massachusetts-Amherst. He was also the Founding Editor of The Journal of Alternative Investments and the Managing Editor for over fifteen years. He is Co-Founder of the Chartered Alternative Investment Analyst Association (CAIA: www.caia.org) and the Founder of Chartered Alternative Investment Analyst Foundation. He is also the Co-Founder of the Institute for Global Asset and Risk Management (INGARM: www.ingarm.org). He has published more than 100 articles in the area of investment management and is the co-author/editor of over six books in the area of investment management including New Science of Asset Allocation (John Wiley, 2010) and Postmodern Investment: Facts and Fallacies of Growing Wealth in a Multi-Asset World (John Wiley, 2012). He has been awarded with the CAIA Award for Research in the Area of Alternative Investments (2012). He has been a frequent speaker on financial news programs and contributor to various financial publications. He received his Ph.D. from the University of Iowa, M.A. from University of Wisconsin, and a B.A. from St. John's University.

He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance and Director of Research at Ursa Capital, LLC which managed an approximately $4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately $1 billion commodity-based investment firm (Alternative Investment Analytics). For over thirty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

He is also currently President of Quantitative Investment Technologies, LLC an investment management firm specializing in downside risk management and investment strategy replication programs (Email: thomas@quantinvesttech.com and website: www.quantinvesttech.com) and the founder of TRS Associates (Email: thomas@trs-assoc.com and Website: www.trs-assoc.com), a financial consulting firm. A collection of his other publications, comments and current writings can be found through his personal email: Trschneeweis@gmail.com or at his personal website: www.thomas@tschneeweis.com.

Comment

Waffler or Pundit: Do They Differ?

Thomas Schneeweis

June 2017

According to the Merriam Webster on-line dictionary, the word is often used as a verb that is Definition of waffle. waffled; waffling \ˈwä-f(ə-)liŋ, ˈwȯ-\ intransitive verb that means to avoid making a definitive decision. 1 : equivocate, vacillate. waffled on the important issues ; also : yo-yo, flip-flop. . The verb waffle seems to have its origins in the 1690s as the word waff, "to yelp," possibly in imitation of the yelping of dogs. The word soon came to mean "to talk foolishly" and then eventually "to vacillate, to change."

In our last quarterly commentary, I emphasized that Academic confusion as to how investment markets work should be expected to be the norm. In contrast, in the practical world of investment finance, investment commentators are not allowed the privilege of admitting that they may or may not have the sole answer to a particular investment question. In short, nothing will destroy a commentator's career faster than that the individual is said to "Waffle." The term "to waffle", particularly in the U.S., can also denote indecision about particular subjects; "**waffling**" can also mean changing one's mind frequently on a topic. According to the Merriam Webster on-line dictionary, the word is often used as a verb that is **Definition** of waffle. **waffled**; **waffling** \ˈwä-f(ə-)liŋ, ˈwȯ-\ intransitive verb that means to avoid making a definitive decision. 1 : equivocate, vacillate.**waffled** on the important issues ; also : yo-yo, flip-flop. . The verb waffle seems to have its origins in the 1690s as the word waff, "to yelp," possibly in imitation of the yelping of dogs. The word soon came to mean "to talk foolishly" and then eventually "to vacillate, to change." If an investment advisor is seen too often vacillate his career is over. As a side bar I just split an

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

infinitive and while this is a no no in the academic world it is accepted practice in the practical world of finance. In order to reduce the probability of splitting an infinitive (e.g., I am concerned that Bill is seems too often flip-flop or yo-yo, or waffle on a subject), the one who often waffles is simply reduced to a simple 'Noun' form as is Bill is a Waffler. In time the investment advisor is no longer even known as Bill but merely as the "Waffler."

In contrast to being viewed as a "waffler" it is very much better (Ok, another sidebar, if one can split an infinitive without being drummed out of the business (note: *Drumming out* is the historical act of being dishonorably dismissed from military service to the sound of a drum) one can also overload the adjectival phrases in front of a noun, while "much better" may be accepted (but not in my house) very much better is not (One doesn't generally use Very and Much together, as they both mean a similar thing; both are used when quantifying something. So, using both is redundant. As for Better, it can only be used with much, since better is already quantifying that there is a good improvement, and grammatically 'Very Better' is wrong.) to be called a Pundit.

So ok, we now know that the only time it may be acceptable to be called a Waffler is if one works as a cook at a Perkins Pancake House. With the start of the new year, each TV station, newspaper, and investment firm is beginning to make public their forecast for 2018. Often these speakers are referred to as Pundits. One reads from Merriam Webster that their title was taken from the Hindi word pandit, a term of respect for a wise person that itself derives from the Sanskrit pandita, meaning "learned." English speakers began using the form pundit specifically to refer to those Hindu sages as long ago as the 1600s.

One would hope of course that given the economic performance of India over the last three hundred years, as for non-Hindu pundits one wonders if their forecasts were any more proficient. At the very least I would have hoped that some enterprising person would have created a website where one

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

could track "pundits." Perhaps the truth is simply that no one really trusts "pundits" but instead realizes that what they are is prognosticators. There the dictionary is a little more forgiving: to forecast (something future) from the present. OK since the future may not reflect the current one might understand the gap between current hope and future fact. But at least they are not Wafflers. That would be unforgivable. One can be wrong, but at least one must be consistent. At the very least, one should recognize the difference.

Looking forward to your comments.

Tom Schneeweis

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Professional Bio: Thomas Schneeweis is the Co-Founder and the current Director of Research at YES Wealth Management, a Registered Investment Advisory Firm in the Minneapolis/St. Paul area in Minnesota (Email: tschneeweis@yeswealth.com and Website: www.yeswealth.com). He was the Michael and Cheryl Philipp Professor of Finance and Founding Director of the Center for International Securities and Derivatives Markets at the Isenberg School of Management, University of Massachusetts-Amherst. He was also the Founding Editor of The Journal of Alternative Investments and the Managing Editor for over fifteen years. He is Co-Founder of the Chartered Alternative Investment Analyst Association (CAIA: www.caia.org) and the Founder of Chartered Alternative Investment Analyst Foundation. He is also the Co-Founder of the Institute for Global Asset and Risk Management (INGARM: www.ingarm.org). He has published more than 100 articles in the area of investment management and is the co-author/editor of over six books in the area of investment management including New Science of Asset Allocation (John Wiley, 2010) and Postmodern Investment: Facts and Fallacies of Growing Wealth in a Multi-Asset World (John Wiley, 2012). He has been awarded with the CAIA Award for Research in the Area of Alternative Investments (2012). He has been a frequent speaker on financial news programs and contributor to various financial publications. He received his Ph.D. from the University of Iowa, M.A. from University of Wisconsin, and a B.A. from St. John's University.

He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance and Director of Research at Ursa Capital, LLC which managed an approximately $4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately $1 billion commodity-based investment firm (Alternative Investment Analytics). For over thirty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

He is also currently President of Quantitative Investment Technologies, LLC an investment management firm specializing in downside risk management and investment strategy replication programs (Email: thomas@quantinvesttech.com and website: www.quantinvesttech.com) and the founder of TRS Associates (Email: thomas@trs-assoc.com and Website: www.trs-assoc.com), a financial consulting firm. A collection of his other publications, comments and current writings can be found through his personal email: Trschneeweis@gmail.com or at his personal website: www.thomas@tschneeweis.com.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Comment

Academic Confusion: The Norm?

Thomas Schneeweis

September, 2017

The question is Why? Here is one theory of the confusion. Most academics use past data to reflect the pros and cons of various informational releases as well as the risk and return benefits of various investment strategies. This approach may be well and good to explain the past, however, where most academics come up short (or at least investment professionals who based their actions based on this academic research) is that academics often conclude that results based on past data may be used as a means to determine where the future might be going. In short academics focused on 'data based' evidence.

Academics as well as many investment professionals have expressed concern over the amount of investment knowledge that investors seem to bring to the table. Often, investors express confusion as to the impact of various information releases or the benefit of various investment strategies. Investors have every right to be confused. Over the past decades, Academics have offered study after study that emphasized the benefits of various investment strategies (e.g., value based investing as well as the superiority of small caps over large caps). Often investors have not seen these promised benefits.

The question is Why? Here is one theory of the confusion. Most academics use past data to reflect the pros and cons of various informational releases as well as the risk and return benefits of various investment strategies. This approach may be well and good to explain the past, however, where most academics come up short (or at least investment professionals who based their actions based on this academic research) is that academics often conclude that results based on past data may be used as a

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

means to determine where the future might be going. In short academics focused on ‘data based’ evidence. hat these academic world data based results may not reflect the future or even may conflict with common investment theory should not surprise us. For Academics, publications count more than truth and in a world where more empirically based journals exist than theoretical focused journals investors must expect “academic statements of fact” to reflect historical data. So, what happens when the past offers no clear picture of where the markets are going? In recent years, value has beaten growth, but often growth has surpassed value; small has outperformed large but then large has surpassed small. So where do we go from here? Decisions must be made. I must remind investors that Academic debate remains the name of the Academic game and that Academic confusion is the norm. In short, just because an Academic runs for the door waving a piece of paper, you do not have to blindly follow. Perhaps they just forgot to pick up the milk.

Looking forward to your comments.

Tom Schneeweis

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Professional Bio: Thomas Schneeweis is the Co-Founder and the current Director of Research at YES Wealth Management, a Registered Investment Advisory Firm in the Minneapolis/St. Paul area in Minnesota (Email: tschneeweis@yeswealth.com and Website: www.yeswealth.com). He was the Michael and Cheryl Philipp Professor of Finance and Founding Director of the Center for International Securities and Derivatives Markets at the Isenberg School of Management, University of Massachusetts-Amherst. He was also the Founding Editor of The Journal of Alternative Investments and the Managing Editor for over fifteen years. He is Co-Founder of the Chartered Alternative Investment Analyst Association (CAIA: www.caia.org) and the Founder of Chartered Alternative Investment Analyst Foundation. He is also the Co-Founder of the Institute for Global Asset and Risk Management (INGARM: www.ingarm.org). He has published more than 100 articles in the area of investment management and is the co-author/editor of over six books in the area of investment management including New Science of Asset Allocation (John Wiley, 2010) and Postmodern Investment: Facts and Fallacies of Growing Wealth in a Multi-Asset World (John Wiley, 2012). He has been awarded with the CAIA Award for Research in the Area of Alternative Investments (2012). He has been a frequent speaker on financial news programs and contributor to various financial publications. He received his Ph.D. from the University of Iowa, M.A. from University of Wisconsin, and a B.A. from St. John's University.

He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance and Director of Research at Ursa Capital, LLC which managed an approximately $4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately $1 billion commodity-based investment firm (Alternative Investment Analytics). For over thirty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

He is also currently President of Quantitative Investment Technologies, LLC an investment management firm specializing in downside risk management and investment strategy replication programs (Email: thomas@quantinvesttech.com and website: www.quantinvesttech.com) and the founder of TRS Associates (Email: thomas@trs-assoc.com and Website: www.trs-assoc.com), a financial consulting firm. A collection of his other publications, comments and current writings can be found through his personal email: Trschneeweis@gmail.com or at his personal website: www.thomas@tschneeweis.com.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Comment

Halfway Up or Half Way Down

Thomas Schneeweis

December, 2017

I realized that in not putting myself in either bucket I failed my readership in that I was wanting to have it both ways; that is, to waffle when I was uncertain as to the future direction of an action but still retain my readerships view of me as a Pundit. The question for this commentary is it possible to have it both ways?

In my last two commentaries, I have attempted to critic both forms of academic or investment commentators, that is, the "Waffler" or the "Pundit." I realized that in not putting myself in either bucket I failed my readership in that I was wanting to have it both ways; that is, to waffle when I was uncertain as to the future direction of an action but still retain my readerships view of me as a Pundit. The question for this commentary is it possible to have it both ways?

There is a famous picture in A.A. Milne "Winnie the Pooh" series in which Christopher Robin sits in the middle of a staircase reflecting on his position as neither half way up nor halfway down.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Halfway Down A.A. Milne
"Halfway down the stairs is a stair where I sit.
there isn't any other stair quite like it.
i'm not at the bottom,
i'm not at the top;
so this is the stair
where I always stop….
All Sort of Funny thoughts run in my head.
It isn't really Anywhere.
It's somewhere else Instead."

He could just have been reflecting on the current status of investment commentary on the U.S. and world economy. After almost eight years after the stock market of 2008, we (at least in the U.S.) have finally seem to have push ourselves halfway up the stairs. It was a hard set of stairs and we have seemingly stopped to take a look around. We continue to muddle along at 2% GDP growth, just enough to keep us from falling back down the stairs but not enough to give us the energy to move very far up. The rest of the world is no better. Low rates, lack of political will, and governmental questions keep Europe mid-staircase bound and China seems no better off. A Good time to take a break, put your portfolio in wait and see mode, and settle in for a nice nap on the staircase. No Funny Thoughts.

Unfortunately, for the general readership, just sitting in the middle of the stairs is not a sign of wisdom but of cowardice. It would almost be better to be seen as a "Waffler" at the top of the Stairs or a Pundit at the bottom. However, since neither Waffler nor Pundit seem appropriate, we need to come up with a new word for the Individual who wishes confidently to be right in the middle.

What is an investment commentator to do? It is simply not true that a market that goes up must go down. Markets are not naturally momentum or mean reverting. While a risky asset should rise over

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

time, it may also experience major short term market movements that are based on unexpected changes in information. With global leaders at odds over a number of economic and social issues, one can expect changes in what is presented as policy. We can only hope for good news over bad and understand the impacts of both on one's investments. To put the aforementioned in print is neither waffling nor punditing, what one may be doing is Commenting without fear of retribution on either side.

Try as I might come up with a proper word for the individual who tries to be honest. In today's charged political climate to state that any position may be less than certain or to even waffle about which decision may be correct is not seen as a sign of strength of character but a sign of character weakness. Hold it, that maybe it. Perhaps the individual who sits in the middle of the stairs should just be known as a Character. Tom "the Character" Schneeweis. Sounds good. I will take it.

Looking forward to your comments.

Tom Schneeweis

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Professional Bio: Thomas Schneeweis is the Co-Founder and the current Director of Research at YES Wealth Management, a Registered Investment Advisory Firm in the Minneapolis/St. Paul area in Minnesota (Email: tschneeweis@yeswealth.com and Website: www.yeswealth.com). He was the Michael and Cheryl Philipp Professor of Finance and Founding Director of the Center for International Securities and Derivatives Markets at the Isenberg School of Management, University of Massachusetts-Amherst. He was also the Founding Editor of The Journal of Alternative Investments and the Managing Editor for over fifteen years. He is Co-Founder of the Chartered Alternative Investment Analyst Association (CAIA: www.caia.org) and the Founder of Chartered Alternative Investment Analyst Foundation. He is also the Co-Founder of the Institute for Global Asset and Risk Management (INGARM: www.ingarm.org). He has published more than 100 articles in the area of investment management and is the co-author/editor of over six books in the area of investment management including New Science of Asset Allocation (John Wiley, 2010) and Postmodern Investment: Facts and Fallacies of Growing Wealth in a Multi-Asset World (John Wiley, 2012). He has been awarded with the CAIA Award for Research in the Area of Alternative Investments (2012). He has been a frequent speaker on financial news programs and contributor to various financial publications. He received his Ph.D. from the University of Iowa, M.A. from University of Wisconsin, and a B.A. from St. John's University.

He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance and Director of Research at Ursa Capital, LLC which managed an approximately $4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately $1 billion commodity-based investment firm (Alternative Investment Analytics). For over thirty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

He is also currently President of Quantitative Investment Technologies, LLC an investment management firm specializing in downside risk management and investment strategy replication programs (Email: thomas@quantinvesttech.com and website: www.quantinvesttech.com) and the founder of TRS Associates (Email: thomas@trs-assoc.com and Website: www.trs-assoc.com), a financial consulting firm. A collection of his other publications, comments and current writings can be found through his personal email: Trschneeweis@gmail.com or at his personal website: www.thomas@tschneeweis.com.

Comment

The Un-Magnificent Seven

Thomas Schneeweis

March, 2018

“Happy families are all **alike;** every unhappy **family is** unhappy **in its own way”**

The title of this ‘Director’s Comments” comes from a well known movie for its time, call the Magnificent Seven.” In the movie, seven individuals came together to save this small town from a set of desperados. Note while not the subject of the movie or this note, the desperados, headed by the actor “Eli Wallach” were certainly more interesting and I believe also numbered seven. So, I always questioned if the movie could have been better renamed. But to the point. This set of comments flows from a request from the college I graduated from to speak to its finance graduates on a topic of my choosing. Of course, it was immediately suggested that the topic should reflect what I learned most from my years at the University. I went over the typical list of college talks including my best professor, my best class, and my long-life friends. None of them really fit. Not that they did not exist, but it was not what I learned from my college “best experiences” that most impacted me in contrast what I remember best were the worst experiences; My worst class, my worst professor, and my worst acquaintances book. If college taught me anything is that not everyone was like my Mom or Dad, honest yet supportive, my hometown friends (always there when you needed them) and my high school professors (who actually taught me something). What I remember learning most, was that “we sell what we can and associate with who we

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

must, not what we should." While I appreciate my college years and recall fondly the best of the best, it is the worst of the worst that gave me an understanding that not only can the best fall from grace, but the worst can also be raised upon the shoulders of others. Now to the subject of this short note. I remember the books that have pushed me forward; The Seven Pillars of Wisdom, anything by Grahame Green, almost anything by Simon Winchester or in my own area of expertise; that is, investments, almost anything by William Sharpe or William Bernstein. Others have their own top seven. But as I tried to reduce it to the best seven, what kept coming into my head was the worst books or articles I had read. How did this ever make it on the NYT Bestseller list? How did this article ever get quoted or how did this author make it on the daily talk shows and no one but no one called into question the premise or the content expressed?

Ok I understand, no one wants to get on the bad side of anyone especially if there is no need to; that is, all downside risk but no upside benefit. But hopefully we have advanced a bit to where we at least can be honest as to which books we have paid dearly for and which the return to risk ratio was very low or perhaps even negative. Today we have a number of services which purport to provide the best of information and that it is "Free." The word "Free" may have some questionable implications. (See Wealthfront's recent announcement of a free information service which upon review provides, at least in my view, questionable answers). So at least be beware of anything with "Free" in the marketing material.

I could provide my own Un-Magnificent Seven in this comment, but at the risk of leaving some out or including one or perhaps two books which have led others to a life well lived, I refrain to do so at this moment, but I look forward to your own submissions of the best and the worst. They may well provide me with the material for a book of my own and beware it may well be "Free."

Looking forward to your comments.

Tom Schneeweis

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Professional Bio: Thomas Schneeweis is the Co-Founder and the current Director of Research at YES Wealth Management, a Registered Investment Advisory Firm in the Minneapolis/St. Paul area in Minnesota (Email: tschneeweis@yeswealth.com and Website: www.yeswealth.com). He was the Michael and Cheryl Philipp Professor of Finance and Founding Director of the Center for International Securities and Derivatives Markets at the Isenberg School of Management, University of Massachusetts-Amherst. He was also the Founding Editor of The Journal of Alternative Investments and the Managing Editor for over fifteen years. He is Co-Founder of the Chartered Alternative Investment Analyst Association (CAIA: www.caia.org) and the Founder of Chartered Alternative Investment Analyst Foundation. He is also the Co-Founder of the Institute for Global Asset and Risk Management (INGARM: www.ingarm.org). He has published more than 100 articles in the area of investment management and is the co-author/editor of over six books in the area of investment management including New Science of Asset Allocation (John Wiley, 2010) and Postmodern Investment: Facts and Fallacies of Growing Wealth in a Multi-Asset World (John Wiley, 2012). He has been awarded with the CAIA Award for Research in the Area of Alternative Investments (2012). He has been a frequent speaker on financial news programs and contributor to various financial publications. He received his Ph.D. from the University of Iowa, M.A. from University of Wisconsin, and a B.A. from St. John's University.

He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance and Director of Research at Ursa Capital, LLC which managed an approximately $4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately $1 billion commodity-based investment firm (Alternative Investment Analytics). For over thirty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

He is also currently President of Quantitative Investment Technologies, LLC an investment management firm specializing in downside risk management and investment strategy replication programs (Email: thomas@quantinvesttech.com and website: www.quantinvesttech.com) and the founder of TRS Associates (Email: thomas@trs-assoc.com and Website: www.trs-assoc.com), a financial consulting firm. A collection of his other publications, comments and current writings can be found through his personal email: Trschneeweis@gmail.com or at his personal website: www.thomas@tschneeweis.com.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Comment

What is Risk?

Thomas Schneeweis

June, 2018

"It's Turtles All the Way Down"

There is a story that a brilliant physicist was explaining how the earth moved through the heavens. A woman in the back of the room, raised her hand. "No" she responding. "It rides on the back of a Turtle". "What does the Turtle ride on"" he asked. "You can't fool me" she said. "It is Turtles all the way down." Same thing on investment risk. Every brilliant investor says they know what risk is, but in truth it is risk all the way down; that is investment risk, operational risk, firm risk, management risk, risk all the way down. So, if one cannot control all risks does one have any answers? For the most part, we have come up with two. 1) Diversify among multiple assets so that we hold a lot of different assets so that the risk of one does not impact the risks of the others and 2) buy insurance from others who have the will or the ability to take on risks we do not wish to take.

But there is risk in believing that either of the two answers eliminates risk. Let's take a quick look.

1. Diversification: Diversify among multiple assets so that we hold a lot of different assets so that the risk of one does not impact the risks of the others.

Answer: Investors often look to "Modern Portfolio Theory" as the support for diversification as the basic approach to risk management. Remember diversification does not eliminate risk. A stock with a 7% expected return and an expected 10% standard deviation has a 15% chance of a return greater than 14% and a 15 % chance of a return less than -3%. "No Free Lunch." But even then, Modern Portfolio Theory is

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

now over sixty years old, so it is really APT (Ancient Portfolio Theory). Nasim Talib wrote several books on this. All of which comes down to this. There are risks we do not even know exist (e.g., Black Swans), they often come at the worst times, and they affect all assets such that diversification benefits based on past data is a fool's errand. In short when things go bad, they may go bad for everything and just holding a lot of things does not eliminate risk. Are there any other choices?

2. Go for the Gold: Do not hold Assets based on their Derived Value (Firm, etc.) but buy Gold (or any other Real Asset) and Bury it

Answer: The trouble with is "is" that is the gold could also be worthless since all the money that anyone else had has also declined. In short there is no one left with any money to buy the gold (and that which they have may be used for things like food and clothes). Lastly, any power that exists after the crash could merely declare gold a non- asset. "Poof."

3. Find a Friend: Who Will Protect You. In short, "Buy Government Bonds."

Answer: See Russia, China, Argentina, Venezuela, Turkey, Greece …………….

4. Past the Risk to Others: You pay others to get others to take on your risk

Answer: If the Government cannot protect you from all risks what makes you think your Friend can, but as is all cases what is the cost of that insurance (Even for Government Protect 3 and consider the cost of Government increased oversight and to ensure their control (What has happened to Banks?). Here is that word again (Insure) but like everything else in insurance it is turtles all the way down.

One has a limited amount of time and paper to discuss all the various turtles, Here are some of them and the "Risk" in all of them.

Buy Insurance From "Insurance Companies." It is insurance all the way down, Insurance companies, re-insurance companies, re- Re-insurance companies. Often Called Annuities, they have all the risk of the company they are bought from which have the same investment risks you have – (See previous discussions on Diversification).

Insurance from Others - Hold Options – We have created a series of "Mark to Market" as a means to reduce counter party risk – but when bad things happen there is no one left at the party. The other issue is cost. Let us take a look. You have 100 and want to lose no more than 5%. An option may cost you 5%. So that if the market falls 5% then you have really lost 10%. (Note you can pay this by selling calls above 105 and below let us say 90 and get about 5% - if all goes south you only lose 5% - Of course if the market goes up beyond 105 you fail to make all of the upside - so in the end you pay.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Self Insure

a. Hold Cash: Hold 90% in Cash (earn 1.5%) and 10 in Stock. If the Stock portion loses 10% you at least have the $91.5 in cash.

b. Hold Stocks and Bonds: Hold 80 in Stocks and $20 in cash. You feel that on a daily basis the most you can lose is 2% of the value of your stocks. If stocks start to lose and you see the value of your portfolio fall to near $90. Get thee out of stocks (Assuming there is someone to buy them).

In short there is no free lunch. No risk free IRA or 401 k. No risk free diversification. There is risk in any and every choice. The biggest risk is to talk to someone who says "Don't Worry. I have covered all your risks." Embrace that risks exist everywhere in life and find how you best feel about coping with it. So, if your investment advisors say "Don't Worry" I have you covered. You better start worrying big time - He or she is simply not telling you the truth. Someone has to cover you and for that there is always a cost. Oh, there is another approach to risk control, I forgot about.

5. Pray to God and Hope for the Best. The problem to No. 5 - There is probably a long line in front of you.

Looking forward to your comments.

Tom Schneeweis

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Professional Bio: Thomas Schneeweis is the Co-Founder and the current Director of Research at YES Wealth Management, a Registered Investment Advisory Firm in the Minneapolis/St. Paul area in Minnesota (Email: tschneeweis@yeswealth.com and Website: www.yeswealth.com). He was the Michael and Cheryl Philipp Professor of Finance and Founding Director of the Center for International Securities and Derivatives Markets at the Isenberg School of Management, University of Massachusetts-Amherst. He was also the Founding Editor of The Journal of Alternative Investments and the Managing Editor for over fifteen years. He is Co-Founder of the Chartered Alternative Investment Analyst Association (CAIA: www.caia.org) and the Founder of Chartered Alternative Investment Analyst Foundation. He is also the Co-Founder of the Institute for Global Asset and Risk Management (INGARM: www.ingarm.org). He has published more than 100 articles in the area of investment management and is the co-author/editor of over six books in the area of investment management including New Science of Asset Allocation (John Wiley, 2010) and Postmodern Investment: Facts and Fallacies of Growing Wealth in a Multi-Asset World (John Wiley, 2012). He has been awarded with the CAIA Award for Research in the Area of Alternative Investments (2012). He has been a frequent speaker on financial news programs and contributor to various financial publications. He received his Ph.D. from the University of Iowa, M.A. from University of Wisconsin, and a B.A. from St. John's University.

He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance and Director of Research at Ursa Capital, LLC which managed an approximately $4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately $1 billion commodity-based investment firm (Alternative Investment Analytics). For over thirty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

He is also currently President of Quantitative Investment Technologies, LLC an investment management firm specializing in downside risk management and investment strategy replication programs (Email: thomas@quantinvesttech.com and website: www.quantinvesttech.com) and the founder of TRS Associates (Email: thomas@trs-assoc.com and Website: www.trs-assoc.com), a financial consulting firm. A collection of his other publications, comments and current writings can be found through his personal email: Trschneeweis@gmail.com or at his personal website: www.thomas@tschneeweis.com.

Comment

Expectations

Thomas Schneeweis

September, 2018

Question: "What is Life without Hope"
Answer: "A Very Depressing One"

The typical answer is that markets prices is a collection of future expectations and that if the future does better than expected the markets will continue up, however, if the markets (growth, interest rate…) disappoint, then the next six months will unwind the last.

As we start the New Year, I thought that this would be a perfect time to discuss our hopes and dreams for the future. In short, what are our "Expectations" for the coming months and since this is supposed to be in part "Economic" Commentary let us say that we are focusing on Economic Expectations. For the past months, economists and market commentators have been in a difficult place. Historical models have suggested a movement away from fixed income but with annualized U.S. market returns averaging above 10% for the past several years there is also concern that U.S. stocks have seen their best days. As for equity markets outside of the U.S., concerns over Brexit and China growth have convinced many investors to lessen their foreign exposure. So, what is a supposed expert to do or suggest?

As for me I remember my Father's observation, "No one ever got shot while in the back of a crowd." In brief, being a leader may have its rewards but also its risks. Most research shows that investors forecast the future based on a weighted average of the most recent past (e.g., last quarter) and a more

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

distant past (e.g., five years ago). So, what is an investor to do? Recent events say keep fully invested and even past market performance does not provide an experience of drastic declines. Unfortunately, if one calls for a "market exit" and markets continue to rise, that expert is soon driving cars at the Minneapolis Airport. Survivor Bias (we only read experts who still have a job) suggests that current experts are those who follow the crowd and not lead it. In short if you follow experts, you are following yourself. Investors beware.

So, in recent days, I have spent time collecting data from webpages supported by so called Expert Market Forecasters. What surprised me most is that while all have a forecast for the following quarter or year, none of them respond to how their forecast for last month performed. It reminded me of a recommendation from one of my past professors who said "give them a number or give them a date but never give them both." I have tried to remain true to his advice. For the past months, economists and market commentators have been in a difficult place. We just don't know what political events may play out and how they may affect markets. So, what is a supposed expert to do or suggest?

I could simply point to others when my own forecasts come up short, but another oft used comment from my father is that "One should remember that when you are pointing your index finger at others, your thumb is often points back at you." Ok while my father was often more correct than wrong, he is not here to defend himself and short of coming back from the afterlife, I feel safe in in following his commentary when He kick me out of the house when I was 21 saying it was "Time for me to get out and make my own Mistakes".

Oh, here is my own forecast; but remember the addendum (The following is not…) at the end of most investment newsletters. For the past months, many commentators have been recommending that investors move away from fixed income and slowly move back into the U.S. stock market. I concur. But

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

then again, maybe not. The U.S. equity market has already grown almost 8% since December. Non-U.S. equity markets have performed beyond expectations and the bond market while not reaching the returns of the equity market has performed beyond expectation. So, what is an investor to do? Among U.S. stocks, the value and growth see-saw continues with value outperforming growth - just the opposite of 2016 which was the opposite of 2015. Are we now going to see the same for the rest of 2017 where those markets that performed well underperform going forward and those that underperformed surprise us going forward? Investors have every right to be confused. The typical answer is that markets prices is a collection of future expectations and that if the future does better than expected the markets will continue up, however, if the markets (growth, interest rate…) disappoint, then the next six months will unwind the last.

OK I give up. Here is my forecast. We will just have to cross our fingers or get ready for a bumpy ride.

Looking forward to your comments.

Tom Schneeweis

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Professional Bio: Thomas Schneeweis is the Co-Founder and the current Director of Research at YES Wealth Management, a Registered Investment Advisory Firm in the Minneapolis/St. Paul area in Minnesota (Email: tschneeweis@yeswealth.com and Website: www.yeswealth.com). He was the Michael and Cheryl Philipp Professor of Finance and Founding Director of the Center for International Securities and Derivatives Markets at the Isenberg School of Management, University of Massachusetts-Amherst. He was also the Founding Editor of The Journal of Alternative Investments and the Managing Editor for over fifteen years. He is Co-Founder of the Chartered Alternative Investment Analyst Association (CAIA: www.caia.org) and the Founder of Chartered Alternative Investment Analyst Foundation. He is also the Co-Founder of the Institute for Global Asset and Risk Management (INGARM: www.ingarm.org). He has published more than 100 articles in the area of investment management and is the co-author/editor of over six books in the area of investment management including New Science of Asset Allocation (John Wiley, 2010) and Postmodern Investment: Facts and Fallacies of Growing Wealth in a Multi-Asset World (John Wiley, 2012). He has been awarded with the CAIA Award for Research in the Area of Alternative Investments (2012). He has been a frequent speaker on financial news programs and contributor to various financial publications. He received his Ph.D. from the University of Iowa, M.A. from University of Wisconsin, and a B.A. from St. John's University.

He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance and Director of Research at Ursa Capital, LLC which managed an approximately $4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately $1 billion commodity-based investment firm (Alternative Investment Analytics). For over thirty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

He is also currently President of Quantitative Investment Technologies, LLC an investment management firm specializing in downside risk management and investment strategy replication programs (Email: thomas@quantinvesttech.com and website: www.quantinvesttech.com) and the founder of TRS Associates (Email: thomas@trs-assoc.com and Website: www.trs-assoc.com), a financial consulting firm. A collection of his other publications, comments and current writings can be found through his personal email: Trschneeweis@gmail.com or at his personal website: www.thomas@tschneeweis.com.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Comment

The Real Cost of Low Investment Fees or

Is There A Cheap Doctor in the House

Thomas Schneeweis

December, 2018

It is not the purpose of this article, to point out the obvious; that is, perhaps the investor is actually getting something from the active manager that he or she is not getting from the lower fee passive alternative. The obvious case is that a low cost index fund often is not the same as the higher cost alternative just as the lower cost actively managed fund may be fundamentally different in some ways from the higher cost comparative product.

Every time I pick up a financial newspaper or look at a financial site on the internet, I cannot help but see a new article advising investors on the benefits of various low fee index investments and the evil of higher fee active management products. Generally, this article is sandwiched between other articles which point out that active managers over some historical time period have failed to beat the comparable low fee income product. The authors of these articles criticizing higher fee products must feel particularly bad. Despite their repeated efforts to inform the public, many investors often continue to purchase actively managed products from managers whose fees are often considerably higher than the low fee passive index alternative. How could this be so? Are all investors just stupid? Why pay these managers their pound of flesh?

It is not the purpose of this article to point out the obvious; that is, perhaps the investor is actually getting something from the active manager that he or she is not getting from the lower fee passive

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

alternative. The obvious case is that a low cost index fund often is not the same as the higher cost alternative just as the lower cost actively managed fund may be fundamentally different in some ways from the higher cost comparative product. For instance, the passive index product may have little ability to change in light of changing economic conditions. Perhaps the inability of the lower cost active manager to dynamically change his style or emphasis is worth a few basis points, even if those opportunities are few and if current regulations restrict him from using his skills to change his strategy without extensive communication with his investors such that by the time he or she is capable of the change the chance for the change has already passed.

Ok, what other benefits may a higher cost active manager offer? As I have often said, the principal problem with an index product is that (except in a few cases of index funds with greater active trading alternatives) will run itself into a wall rather than adjusting for the obvious. In some sense the fees you are paying your fund manager are like the fees on an out of the money put. In short, a type of insurance payment for the dynamic hedging ability of the active manager (now I realize we could do this ourselves but my wife says I should paint the house instead). Since unexpected events should impact funds which specialize in small cap rather than large cap funds, one would expect that that insurance (and fees) should be higher for small cap funds than large cap funds. Of course, one could buy one's own insurance (a real put) but the path-dependent insurance offered by the managers is often less costly than the one time puts and calls purchases by the investor and as pointed out previously I have to paint the house.

One could continue to give numerous other examples but let us just say that active manager based funds differ from passive index funds in numerous ways including some potential insurance like options of which may have value and one should pay for them.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Few if any of these articles discuss the above points. Instead, they focus on something called Alpha. Outside of the fact that almost no one has a clue on how that is defined or determined, let us just say that managers may charge for their services if they can offer net returns which are higher than the net returns of other similar products (e.g., low fee index products). Ok let's get the point out now. I do not care and you should not care how much your manager makes as long as he or she offers you a net return higher that a similar (in all aspects; that is see above discussion on options) than the similar index product or lower cost active manager product. If that manager can earn gross returns higher than the net returns of a similar product then they should have the right to charge up to an amount that equates the two returns. Now in fact, they may charge you less just to keep you with them rather than the lower fee product, but that difference is up to you and him and surely not the writers of various Bloomberg or P&I columns. But we continue. Does Alpha exist? At the gross level of course. One would expect that a manager who pays for the Bloomberg machine, hordes of reports, analysts, compliance officers, planes, trains ….had access to information that the index or lower fee active manager creator does not and should make a higher gross return. I expect Goldman Sachs to have more information than I have in a trade. I expect their gross return to be higher than mine. After costs, I expect the difference between us to be smaller (my costs are the costs of coffee at Starbucks and use their internet to trade). The issue is if are the fees offsetting the before cost 'Gross Alpha'?

In addition, he or she may also wish to know if my manager is charging one for the cost of his operations and information and a reasonable return on his personal efforts. I may have little right to demand that he give me a higher net return Alpha by lowering his costs, but I can ask. Let' s get this straight a 1% and 20% hedge fund managers is not making 1% and 20%. Much of that goes into the cost of operations. I

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

dare anyone to manage a high quality equity fund for less than three to five million dollars. Even if one has a $5,000,000 under management, if one goes through a period of low excess performance, one is just covering costs with a little on the side for the managing partners. One can always complain that the actual return to a manager in the best cases are beyond what is reasonable, but who is to decide what that is. Again only net returns matter. One should not begrudge Tom Brady his twenty million as long as you get yours. Forcing a manager (or a Tom Brady) to deflate his fees (or the football) or reduce operational costs may lead to results you will not like.

I presume one could pass laws which encourage investors to place their money with the lowest price alternative (sorry I forgot that in regard to 401 K that is what we are trying to do). Just beware that not all alternatives are equal. I have never seen a person walk into a hospital and ask for the lowest cost doctor (Oh I forgot that is what the government wants us to do). The simple truth is sometimes better doctors, better academics, better managers simply cost more because they do more and after considering all the costs they are simply worth it. I often wonder if the publications or authors which or who are so concerned with my net returns have ever done a test to see if the cost of their publication or services (with news that is often, at best, 6-12 hours dated) has a positive net return to me the investor or if they suddenly did find a real continuous source of valued information would not increase their price to capture that value. I think I know the answer. Sometimes cheaper is just that cheaper, but cheaper is not always better.

Looking forward to your comments.

Tom Schneeweis

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com

Professional Bio: Thomas Schneeweis is the Co-Founder and the current Director of Research at YES Wealth Management, a Registered Investment Advisory Firm in the Minneapolis/St. Paul area in Minnesota (Email: tschneeweis@yeswealth.com and Website: www.yeswealth.com). He was the Michael and Cheryl Philipp Professor of Finance and Founding Director of the Center for International Securities and Derivatives Markets at the Isenberg School of Management, University of Massachusetts-Amherst. He was also the Founding Editor of The Journal of Alternative Investments and the Managing Editor for over fifteen years. He is Co-Founder of the Chartered Alternative Investment Analyst Association (CAIA: www.caia.org) and the Founder of Chartered Alternative Investment Analyst Foundation. He is also the Co-Founder of the Institute for Global Asset and Risk Management (INGARM: www.ingarm.org). He has published more than 100 articles in the area of investment management and is the co-author/editor of over six books in the area of investment management including New Science of Asset Allocation (John Wiley, 2010) and Postmodern Investment: Facts and Fallacies of Growing Wealth in a Multi-Asset World (John Wiley, 2012). He has been awarded with the CAIA Award for Research in the Area of Alternative Investments (2012). He has been a frequent speaker on financial news programs and contributor to various financial publications. He received his Ph.D. from the University of Iowa, M.A. from University of Wisconsin, and a B.A. from St. John's University.

He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance and Director of Research at Ursa Capital, LLC which managed an approximately $4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately $1 billion commodity-based investment firm (Alternative Investment Analytics). For over thirty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

He is also currently President of Quantitative Investment Technologies, LLC an investment management firm specializing in downside risk management and investment strategy replication programs (Email: thomas@quantinvesttech.com and website: www.quantinvesttech.com) and the founder of TRS Associates (Email: thomas@trs-assoc.com and Website: www.trs-assoc.com), a financial consulting firm. A collection of his other publications, comments and current writings can be found through his personal email: Trschneeweis@gmail.com or at his personal website: www.thomas@tschneeweis.com.

Thomas Schneeweis, TRS Associates, 86 Mahtomedi Ave., Mahtomedi, MN. 55115
Office: 651-401-0465; Cell: 413-218-0206; Email: thomas@trs-assoc.com; Web: www.trs-assoc.com