

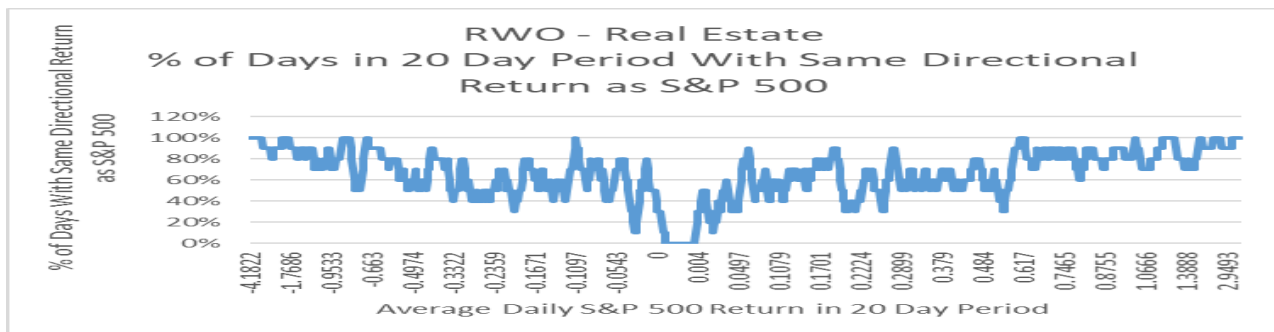
Diversification: A Story of Where and When

**“And so it seems that we have met before ...and loved before but who knows Where or When”
(Babes in Arms, 1937)**

Thomas Schneeweis

July, 2021

A simple story is often told in song. But a great song will have a story that is far from simple. Many investment advisors use bonds or real estate investments as diversifiers to the S&P 500 with the assumption that the directional return of bonds or real estate will differ from stocks. In short, when stocks are down, bonds and real estate will not have the same directional return and may provide positive returns. Many advisors will provide a simple graph which shows how bonds and stocks move relative to equity. These results show that the return movement between the various asset classes often differ. But they show this by using all days. In fact, it is only when equity returns are very low or near zero is there little co-movement with bonds and or real estate. When stocks have high negative returns or high positive returns, bonds and/or real estate have similar return movements and provide similar directional return. In short, just when you need diversification you do not get it.



To find great diversifiers, you must find other assets such as market neutral investments that by design will perform differently from stocks when stocks have their highest or lowest returns and not when stocks returns are just close to zero. Simply put, the ‘Benefits of Diversification’ is a story of where and when.

The Siri of Finance

Thomas Schneeweis

August, 2021

I am sure we all dream of inventing or discovering something that would make aspects of our life easier or provide solutions to certain aspects of our life. Over the past week I was introduced to one of those solutions, that is, by using an app on my phone; that is Siri. I could ask a question (How do I get to Charleston?). The app would launch the map app and give me a set of voice commands on which streets to use, when to take the turns and when I got there. For the Directionally Deficient this was a miracle.

The question I had was that if this existed for the Maps App why not for an Investment App. I could ask a question; “How to get a 10% annual return in Stocks?” If This App existed, the phone would launch the Investment app and give me a set of voice commands on which assets to use, when to buy and sell them and when I got there. For the Financially Deficient this was another miracle. Could I not ask it how to get to the point on my efficient frontier which represented my desired return to risk tradeoff. As I was currently in low-risk stock and bond land, I wanted to know what streets (stocks or bonds) to take and how to move from one part of the stock/bond map to another and what stocks/bonds to add and what stocks/bonds to drop. As important I wanted to know when I got there.

I went to my ‘finance map’ brother, better known as an investment advisor, and asked him where the app was. He cautioned me that one of the reasons it worked for driving ‘Map directions’ is that East remained East, West remained West and most of the street’s names rarely changed. In finance, this is not so. There simply was no all-inclusive stock and bond map which tracked how they were all connected and if they constantly changed how to track that change. Just as I suspected. Apps exist which cover what I had before (maps in the car console) but not which cover things I don’t have (a simple model of how to invest). Perhaps I can create one?

TRS Associates

Financial “Clogs”

Thomas Schneeweis

September, 2021

I am sure that some of our readers are a little uncertain if the above title is offering anything of value to them or simply a misspelling of Financial “Blog”. In fact, the above title was inspired by a Financial Blog which concerned itself over the ability of the writer to transfer assets easily from one market to another. Herein was the problem. This gentleman was trading equities on a relatively transparent and liquid market. In short, it was always easy for the trader to sell shares and use the cash to purchase new shares traded in the same market. One day he decided to sell equity shares on Market A and use the Cash to purchases equity shares traded on Market B. He was told that there would be no problem until the trade actually was attempted. Despite all the assurances, the exchange did not take place. Not only did he attempt the trade, but a large number of other investors also attempted the trade within the same timeframe. The number of trades and the number of traders resulted in a “Financial Clog”. The size of the sell orders overwhelmed the size of the potential buy orders.

The inability to move the assets in Market A to Market B was described by my Uncle Bill the plumber as we sat at my house unclogging my downstairs toilet. Simply put, the shower in the bathroom had a 4-inch drain and it interconnected to a 2-inch pipe from the toilet. While on most occasions, the shower and the toilet were not used simultaneously, on the few occasions where they were the volume of water coming from the four-inch pipe could back up the water in the two-inch drain. Depending on the type of debris in pipe, one of the flows from one pipe may meet resistance from the other and clogs can form. The answer is not trade in markets that clog or don’t trade during times where the flow is not equal. In short, your Uncle Bill the plumber knows more than he pretends to about investment markets.

Free Education – How Free is Free?

Thomas Schneeweis

October, 2021

Over the past year many of us and our children have been forced to look to new avenues for new information. With Covid we have been prevented from leaving our homes and visiting directly our friends and advisors who in the past may have been considered our best source of information. As an alternative we have used the internet as a primary source of information. Whether you're five or ninety-five, the internet has a lot to offer. Particularly when the topic is education, the resources on the internet are endless. Best of all, many high-quality sites are 'supposedly' completely free.

One of the problems is how we are assured that the sites we visit are of the highest quality and what is the meaning of the word free. This may be especially true when speaking of investments or financial advice.

One attempt to search for "Top Financial Magazines" led to this Web site

<https://investorjunkie.com/investing/top-financial-magazines/>

The list of magazines includes Barrons, The Economist, Forbes, Money..... While the Website declares its independence and that of the magazines it promotes, it also declines its knowledge or support of the content. Now let's be honest, none of the above are really free. If one was free and offered a cost-free way to purchase or sell stocks that resulted in a positive risk-free return, none of the other sites would exist. The next question is that even if they cost money, if there was one which consistently outperformed the rest on a return to risk basis, it would dominate the others. In short, the market is an efficient provider of information, if a particular site offered a higher return to risk decision process on a cost adjusted basis, people would pay a higher price for it until its cost adjusted information benefit was similar to others. In short, there is no free lunch. The more beneficial the lunch the more it costs. You decide what you want and what you want to pay. To believe otherwise is a fool's errand. If you find an article you wish us to comment on please let us know.

‘Bestism’ in Education or When is Just Being Good, Good Enough

Thomas Schneeweis

November, 2021

In recent months and years there has been increased discussion of the impact of “Bestism” on education growth and in fact societal change. Many schools have attempted to change admission and educational directives in order to provide more educational opportunities to a diverse set of students. Various schools have removed the more test based educational exam centered means of determining those students who may have been ‘historically’ more qualified for certain classes. The reason was simple. In a diverse world, student success would be due not only to their ‘specific’ talent but their ability to work with others of a more diverse background. The process is not without its critiques. Outside of the fact that some of the students who were excluded from consideration were among the most gifted students available, outside of the fact that there was no evidence that these more academically gifted students had shown lack of ability to interact with students of a different race, color or creed, the decision was made. In the future, there would be an attempt to bring a broader set of students together regardless of their underlying qualities.

One could only hope that the selection process aimed at offering ‘less academically advantaged’ students a means of quality education is also used to provide less ‘athletic advantaged’ students a way to participate in a range of high school activities. I am sure the ‘High School Board’ is making sure that there are a number of 5-foot 4-inch students on the basketball team and 150-pound guys or girls on the high school football squad. The purpose of increasing the opportunity set is to ensure that no group of students, parents or faculty have a set of beliefs or talents that separate them from less diverse or more athletically or academically qualified competitors. I am sure that many want the word competitor stricken from the school vocabulary. What do we call the person who wants to be the best? The concern may be that if one attempts to be the best, one ends up being a beast instead (administrators and board members included). There is no simple solution.

Differences in Society: Benefits of Human Diversification

Thomas Schneeweis

December, 2021

In recent weeks, there has been increased discussion on the perceived differences (wealth, business opportunities,) between various racial, religious, groups within the United States and internationally. Often the question is asked as to who is at fault for those perceived differences and what is the best means to attempt to reduce these perceptions. More importantly, how to promote conditions in which interactions between various individuals is centered on their fundamental makeup rather than inappropriate and relatively meaningless physical or psychological attitudes. Similar to one's investment portfolio, one's personal 'interaction' portfolio will be comprised of a set of individuals which fit together at the portfolio level but differ dramatically at the individual level. In fact, one's portfolio (financial or people orientated) offers a greater set of diverse opportunities if the potential set of assets (securities or people) differ (e.g., low correlation).

It is not the purpose of this short note to try to solve the world's shortcomings on how individuals interact or attempt to find means to reduce the individual or societal costs of how individuals interact. I have been in countries where I was the majority and countries where I was in the minority. Places where people placed me in their 'people' portfolio differently. On both sides of the aisle, I have seen wealthy and privileged individuals (as well as poorer and restricted individuals) support their friends rather than focusing their help on those who necessarily need their support. I cannot forecast the future but unless there is honest discussion (in education, in health, in job growth) that fails to take advantage of the benefits of a larger portfolio (a boarder set of assets in the financial world and a broader set of people in the real world) the solution set may be less than optimal.

TRS Associates
