

Gas, Hybrid or Electric: Changing Investment Models

Thomas Schneeweis

January, 2023

Within the past week, my brother stopped over to my house, to present his new model of hybrid electric/gas automobile. While certainly different from the gas-based vehicle I have in my garage, I realized it was part of the transition of the auto industry to a new means of propulsion. Knowing absolutely nothing about the process by which a hybrid electric/gas vehicle worked, I asked my neighbor (in this case an engineer who works for Tesla) to describe the advances in automobile propulsion (gas to electric) and the implications for current and future modes of transportation and auto ownership. In our brief discussion I also came to realize not only how little I really understood about how new forms of automobiles worked but how much I currently depend on outside sales personnel and local service personnel in keeping my gas auto version alive. I also realized how increasingly electric centered vehicles would require the help and service of higher-level service stations and personnel and that current local auto services firms may be soon a thing of the past.

As my neighbor is also an investment client of mine, I also came to realize how similar the transition from gas to electric automobiles was reflective of today's investment transition from a simple stock/bond portfolio (aka today's auto's gas engine) to investment technology that, like cars, are more hybrid and artificial intelligence in form (e.g., ETFs, alternative investments). As auto repair firms which focus on dated technology will soon pass away, investment advisory firms which emphasize mutual funds and stocks and bonds may be a thing of the past. As a modern investment advisory firm who specialize in new financial products and processes,

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we look forward to helping you in the transition from the current world of wealth management to the future one where more hybrid or advanced forms of investment are the norm. Here is to change.

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Mugged by Reality

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In recent months, we in the financial industry have been increasingly impacted by a set of changing financial conditions and how these changing conditions have an impact on our financial investors. Inflation has raised its ugly head and while it seems to be peaking it still remains at a level not seen since the early 1980's. Investors looking for the stock market as a solid place 'to park' their money, have come back to find their 'stock market car' without any wheels, missing a spare tire, and out of windshield washing liquid. At the same time, the 'diversifying' bond market also lost value as interest rates rose to reflect increasing price levels.

In the past when faced with economic or financial conditions not of my liking I often tried to look to historical conditions with a similar story and with a historically based solution or at least to find a villain (e.g., Banks and the Crash of 2007) to blame. Unfortunately, simple review of past financial conditions or villains as a basis for current solutions is often inadequate. Today, we live in a global financial market and unlike the past what happens in Europe, Asia or the Ukraine has an immediate impact on our markets. Today, new forms of 'financial instruments' such as Futures, ETFs and Options impact today's financial products and reliance on individual assets or mutual funds is insufficient and inadequate. We have to look to future and current opportunities and what we believe moves them today and not rely on what moved these assets in the past.

Often I hear my financial investment sisters and brothers tell me to rely on the principals of 'Modern Portfolio Theory'. I point out that Modern Portfolio Theory was initiated in 1952 by Harry Markowitz and is no longer Modern and was centered on individual stocks and bonds. Today we cannot simply give an excuse that we were 'Mugged by Reality' and that our reliance on past solutions proved inadequate. We have to remind our investors that while we know we may not have had perfect solutions we do realize that we live in a 'World of Postmodern Financial Theory' in which simple historical data maybe meaningless and what we rely on are new financial ideas and how we can expect them to work in the new financial world.

When I raise these issues, my brother and co-partner, he reminds me that being 'Mugged by Reality' is not an excuse for denying its existence and not moving forward. In short, financial reality bites especially when it may be in one's own rear end, but this may also be a good time to get up and to get off it and move forward into the new financial world. I look forward to meeting you in this new 'financial' world.

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What I Learned in College

Thomas Schneeweis

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“All happy families are alike; Each unhappy family is unhappy in its own way.” Leo Tolstoy

The reason for this blog is the result of a request from the college I graduated from to speak to it's 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' my best professor, my best class, my long life friends. None of them really fit. Not that they did not exist, but it was not what I learned most from my college experience. What I remember learning most, was that “we sell what we can, not what we should” and by that I mean many of the books, classes, and acquaintances I remember most were the ones that were the worst. My worst course, my worst professor, and my worst classmate. If college taught me anything is that not everyone was like my mom or dad; honest yet supportive, there when you needed them and actually taught me something.

In short, it is the worst of the worst that gave me an understanding that not only can the best fall from grace but that the worst can be raised upon the shoulders of others. So while others may proudly display their ten best books list, or ten best movie list or ten best lists of the ten best, what keeps coming into my head was the worst ones 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.

So, as they say, in an effort to start the ball rolling, the following are a list of several of the worst books I have ever read ('Stocks in the Long Run', 'Rich Dad Poor Dad'.....). Now note these books are primarily in the finance area. This should come of no surprise since that is the one area in which I try to remain somewhat current, but I feel confident that any reader with their own area of interest and specialty can come up with a representative worst list. I hope that you each take the time to send me your own list. Think of the service that such lists could provide, by providing a list of what not to read and instead taking a good nap.

Education – The Cost and Benefits of Coming out of the Closet?

Thomas Schneeweis

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As the Director of an Academic Research Center which existed in the context of a public university, the economics of education was not only an academic discussion but a practical reality. Recent economic realities have forced states as well as private institutions and individuals to drastically reduce their economic support for public education. What is the cost of such a reversal in support? Academic research has shown that education is considered a prime factor in the ability of a nation to retain comparative or absolute advantages. For instance, it has been argued that quality financial education is required for the U.S. to retain supremacy in financial market leadership.

The question remains as to who is responsible for financially supporting the infrastructure necessary for financial education. At present, financial education for alternative investments comes in many forms; that is, 1) traditional public and private educational institutions, 2) professional associations, 3) private firms ... One of the problems that exists in supporting such multiple educational structures, is that in the case of public educational institutions, the result of such financial support is the betterment of ‘general education’ which in many ways is a public good in which the firms’ or individuals’ providing such support cannot capture directly the “sole” benefits of such financial support.

This free rider problem lies at the center of state or private support for ‘public good’ education. Other problems, of course, also are evident. The primary one is that the positions taken by academic research centers or professional associations may not fit with the positions taken by individuals. Given the potential conflict between public and private views, many firms favor direct control over the educational product. This control minimizes potential conflicts between a firm’s message and its educational message.

All of the above issues are well known but knowledge does not necessarily lead to action. Private firms providing educational support are forced by the marketplace to provide what they believe consumers want to hear rather than what they should hear. Even public education provides sanitized versions of ‘academic truth’ (e.g., It is better to under educate rather than to confuse). What is the result of such a variety of educational forums? Certainly, there is a mix of information on various topics. What is the solution? Certainly, a global certification process can be used to attempt to provide a basic ‘common’ body of knowledge. Even in this regard, much of what is provided may change over time as new markets evolve and markets change. In fact, education is about change, that is, revising as well as strengthening viewpoints. Education itself should not be about hiding behind doors but opening them. Permitting a broader range of educational approaches may itself be beneficial as providing a competitive market over which their relative value may be compared. Our failure to permit an open approach to education has costs but we may have remained in the closet long enough, now is the time to open up as to what we are, what we do, and why we do it. Despite some individuals’ fears, the results of multiple approaches to provide education venues should not shock anyone. Most research supports the view that product competition may have value.

You Can “Bank” on IT

Thomas Schneeweis

May, 2023

In recent months, the importance of ‘Banks’ in the world economy has become increasingly obvious to most readers. This I not to say, that ‘Banks’ have not been a major part of the world economy in the years, decades, and centuries before today. The earliest Banks were often associated primarily with places such as temples to store valuable items (who would rob a temple). Historical records indicate that temples and similar places that stored values, or items such as coins often offered loans to others based on the transfer of these items and a repayment based on the riskiness of these items. The creation, the growth, and often the oversight of these institutions by various supervisory bodies developed over the centuries in many countries. In the United States, Banks under the regulatory oversight of various U.S. government bodies came into existence in the late 18th century. From the following century on, Banks and the U.S. Banking system underwent major changes. In the period of the Civil War a National U.S. Currency was developed and by the early part of the 20th century, a national banking system was constructed under the supervision of the U.S. Federal Reserve System.

Now for years since the creation of the U.S. Banking system and the Federal Reserve system, new regulations were created to oversee that management of a range of financial institutions. Often these regulations were created to insure the safety of these financial institutions. The failure of these financial regulations and systems came obvious in the 1930’s and over the years, new regulations came to meet the changing financial system. Changes in the financial environment in late 1980’s lead to major changes among new financial rules (e.g., the Basil accords) but these new financial rules also led, in part, to the failure of the financial system in 2008. New attempts were made to make the financial system more accommodative to the new world after after the crash. In the period from 2012 -2020 the financial system was expanded to provide larger sources of funds and later a lower rate of interest. This “new Monetary System” was seen to create a new financial world based on a new lines of credit.

But the changes in the financial system did not advance during the Covid outbreak to meet the changes in the new financial order coming out of the Covid pandemic. Soon, new financial conditions arose with higher interest rates. Change was required to get the economy under control. This time we would get it right. **You can “Bank” on It (OR CAN YOU).**

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Everyone is Someone

Thomas Schneeweis

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Several Weeks ago, I picked up a copy of the New York Times and an article appeared in print in, Section B, Page 8 of with the headline: Harry Markowitz, Nobel Winner Who Rewrote Stock Strategy, Dies at 95. Order Reprints | Today's Paper | Subscribe. I had to wonder, How The Times decides who gets an obituary. The paper had an answer, According to them, "There is no formula, scoring system or checklist in determining the news value of a life. We investigate, research, and ask around before settling on our subjects. Suggest an obituary for consideration by writing to obits@nytimes.com." Now I realize that to get somewhere closer to the front of Section B, where your obituary generally runs several columns, the acceptance is based on a pre-submission charge. These obits were generally for the ex-heads of corporations and or organizations for which the public announcement had some 'news' value. But what of an individual who simply did not care what others' thought or did not have a board of directors who saw the two-column print of something of value or at least a social media requirement.

What about Harry Markowitz? Since the early 1950's (H. Markowitz, Portfolio Theory), MPT theory was that the simple correlation between two assets (e.g., stocks and bonds) is sufficient to manage portfolio investment risk. MPT theory formed the basis for the creation of various stock and bond allocations to manage investor's exposure to financial risk. That simple change in how money was managed from the 1950's was worthy of mention. But maybe not. Since the rise of market globalization, increasingly traditional risky assets such as global stocks and bonds have been shown to move together in periods of financial crisis. It is now understood that new financial assets (futures, options, ..) and new investment strategies (e.g., downside risk control) are required to "Bridge the Gap" between the "Dated" Low correlation stock/bond approach of the early 1950's MPT and the "New" Multi-Asset/Risk Managed approach of Post- Modern Portfolio Theory. Think of the 'obit' as a teaching moment.