
OBSERVATIONS AND PERSPECTIVES: SELL EVERYTHING? EVEN THE KIDS?

A very smart investor (more than one very smart investor, actually) is saying to sell everything. These “smart guys” are very likely smarter than me. They most certainly are wealthier than I am. Some may argue they are also better looking than me.

Listen, it’s hard to disagree with the logic of these smart guys. In fact, at Sierra, we completely agree that the reward doesn’t justify the risk in “mainstream” stocks, such as the S&P 500 (high risk, low expected return), or in “mainstream” bonds, such as 10-year Treasuries (low risk, low expected return).

You don’t have to go far to find stock markets that are less expensive than in the U.S. – virtually every market on the planet sports a lower price/earnings multiple. Add to that a high level of risk - already this year, investors in mainstream stocks suffered sharp losses in January and again in late June.

U.S. stocks pay roughly a 2% dividend with, perhaps, earnings growth of around 1-2%. Even if the high price multiples hold, expect just 3-4% returns from mainstream stocks. And that comes with a lot of volatility. High risk, low expected return.

Many say, that just leaves bonds. The 10-year Treasury pays a slim 1.5% or a Barclays Aggregate benchmarked investment yields about 1.7%. For a year, now, we have been saying rates will be lower for longer than most expect. In fact, rates could stay at low-single digit levels for years. Mainstream bonds are low risk, maybe, but also very low return.

Put these mainstream assets into a traditional 60% stocks and 40% bonds portfolio and you can expect to earn a miserable 3%, with loads of risk.

So sell everything! Right or wrong? There will be a correction at some point – there always is. It’s prudent to wait to invest in mainstream stocks until they are at better price/earnings multiples. It is OK to stay out of mainstream bonds until the yields there are higher.

We aren’t sitting on the sidelines in cash, though. To date in 2016, our clients have enjoyed positive returns. How? We stepped away from the mainstream and invested in high yield bonds, emerging markets debt, certain international stocks, preferred stocks and intermediate bonds.

At the same time, we commit a dynamic stop-loss system that

minimizes losses if there is an August swoon (or a swoon any time). We can – and have – sold everything when those stop-losses are triggered, but that is not happening today.

We are invested conservatively and believe it’s better to make money slowly than just take speculative bets. Investors don’t have to force the mainstream markets when it isn’t logical to do so, but there are still ways to make money and do it smoothly. So for now, anyway, no need to sell the kids.



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The **S&P 500®** is an unmanaged composite of 500 large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks.

The **Barclays Capital U.S. Aggregate Bond Index** is a broad-based index maintained by Barclays Capital that is often used to represent investment-grade bonds traded in the United States.

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