July 2015

Inside This Issue

MALLARD ADVISORS

Comprehensive Financial Planning & Wealth Management Solutions

THE QUARTERLY MALLARD CALL

Stop Strategy Seeking

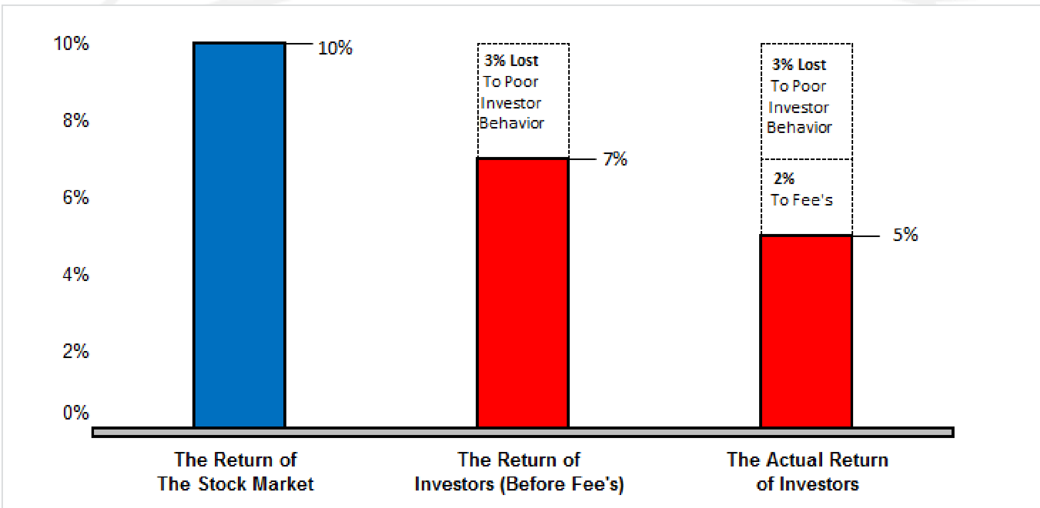
William D. Starnes

Investors are hell bent on their search for a winning strategy, market-beating funds, or an investment guru, even though the evidence powerfully confirms that this futile search for holy grail does not exist. This is a very normal desire as we all want good returns AND we want to avoid losses. I will call this behavior "**Strategy Seeking**".

Perhaps large company U.S. stocks did well last year (which they did). Then investors wonder why they didn't own more of that asset class last year. Of course, this year it may be another asset class that "wins". The obvious problem with this is that no one knows ***in advance*** what asset class will be the winning asset class; therefore you must own several different asset classes. The allocation should be prudent (given your tolerance for volatility) and based upon historical data suggesting the highest overall return given the level of chosen risk. This is called the most "efficient" portfolio allocation.

Yet, it is the futile search to achieve market beating returns (or to avoid losses) that results in investors earning about 1/2 the returns that the market provides (the returns they deserve). Why?

1. Paying high fees
2. Strategy seeking



Continued On Page 2

Announcements

I had an outstanding trip to Yosemite / Tahoe / Gold Country last month with my family. We started in the gold country with a white water rafting trip, gold panning, and a visit to *Calaveras Big Trees State Park*. We then drove into Yosemite and spent a few days camping in the beautiful back-country. Then we were off to Yosemite Valley for two nights and found that renting bikes to get around made the visit very efficient. Yes, we saw bears! Finally, we headed to Lake Tahoe for some mountain biking and fly fishing.

Notices

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Mallard Advisors, LLC

1041 Valley Road
Hockessin DE 19707
Phone: 302-239-1654
Fax: 302-763-3718

info@mallardadvisors.com
www.mallardadvisors.com

Stop Strategy Seeking...Continued

In this article, I will focus on how strategy seeking impacts investors' realized lifetime returns.

Every year Dalbar studies the returns of investors versus the returns of the investments they hold to find that the investors' actual returns are almost 1/2 of what they deserve. Over the last 20 years (through the end of 2014), the return for the S&P 500 was 9.22% compared to the average equity investor's return of 5.02%.

http://www.dalbar.com/Portals/dalbar/cache/News/PressReleases/2014QAIBHighlightsPR.pdf

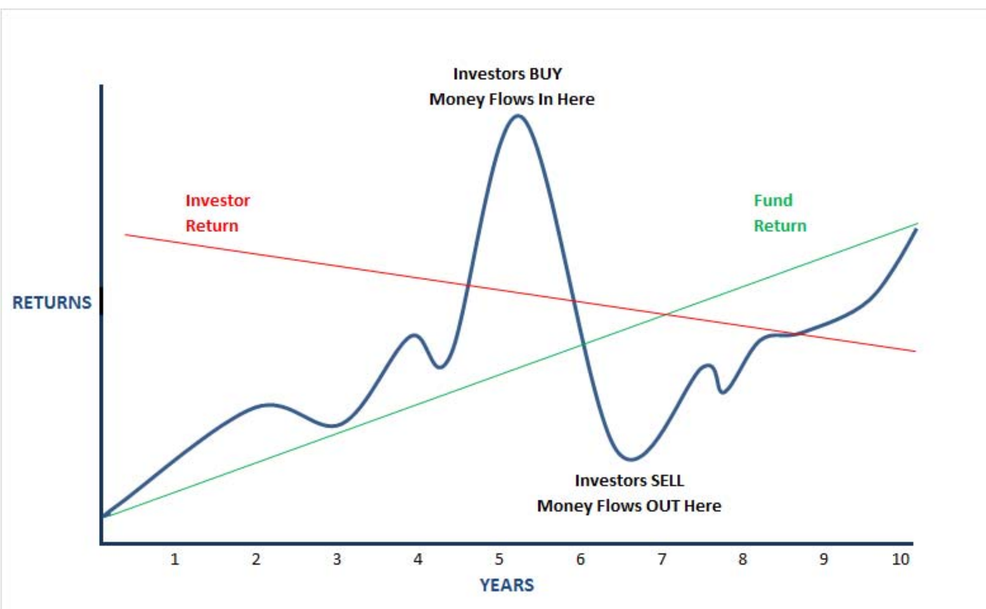
Dalbar has attributed this to fund switching, strategy seeking, and guru searching. The quest for the holy grail of market beating returns is very strong in large part because investors still believe in this illusion. It is easy to see how when there are always fund managers, or friends, who are doing well. The problem is that it is almost never the same people doing well a few years later. **Investors confuse luck with skill**. They confuse poor investment decisions (such as a lack of diversification) as being "great calls". For example, if your friend held nothing but U.S. large company "blue-chip" stocks for the last year, is he brilliant? More likely they are like a broken clock that is right twice a day. He just got lucky and wants all of his friends to know about his "skill". It is very unlikely that the friend will pick the winning asset class in 2015.

As mentioned above, investors don't earn the returns they deserve due to strategy seeking and paying high fees. Both Morningstar and Dalbar measure how investors are hurt by strategy seeking by comparing the return of the ***investments*** themselves to the return the ***investors*** actually receive**.** The return of the investments is aptly called the "fund return" (or the "time weighted" return). These returns are published by the funds and are also easily found online. They are factual returns, IF you had owned and held the fund during the stated time period.

The return of the investor is aptly called the "investor return" (or dollar weighted return). This is the return of the ***average investor*** during the same reported time period in the same fund. In contrast to the fund return, investor return accounts for the timing of all cash flows into (and out of) the fund in order to measure how the average investor performed during the time period. Investor return will be worse than the fund return for the same time period if a fund received a large inflow of new investment dollars right **after** a period of great performance and right **before** a period of poor performance. Calculated investor return captures these cash flows and places more weight on the months with higher assets in the fund. In this example, investor returns are lower than total fund returns (for the same time period) because more investors participated in the losses.

A real life example may clarify this. For the ten years through 2009, ***CGM Focus Fund*** was the best performing U.S. stock mutual fund. This was the hot mutual fund everyone was talking about. The performance of the fund was phenomenal with an average annual return of 18.2% (far better than the competition). However, the average investor in this fund LOST 11% annually.

How is this possible? When the fund surged 80% in 2007, strategy seeking investors poured $2.6 billion into the fund. The following year, after the fund lost 48%, strategy seeking investors pulled $750 million out of the fund. Therefore, the difference between the fund return and the investor return ended up being about 30% per year!



The visual on the left should help illustrate how this can occur. This chart does not reflect the actual data of any fund (including CGM Focus Fund). I created it as a simplified illustration.

Could this happen to you? Could

your returns be lower as a result of this kind of performance chasing? Ask yourself, "Do I wish I had invested more in the S&P 500 last year and now want to move my money into the S&P 500?" Ask yourself, "Did I load up on tech stocks in the late 90's?"

You can easily look up and compare fund returns to that of investor returns in Morningstar.com. Generally, you will see that investor returns are lower than fund returns.

Remember, investor return measures the experience of the ***average investor*** in a fund. It is not one specific investor's experience, but rather a measure of the return earned collectively by all the investors in the fund during that time period. Investor returns are not a substitute for total returns, but can be enlightening to see what you want to avoid. The data tells a tale of poor timing in and out of funds, and it seems to be getting worse. I suspect the 24-hour news cycle inundates investors with news and opinions leading to investing based on reaction rather than logic.

The average investor could have doubled their returns over the last 20 years by following one bit of simple advice: **Stop Strategy Seeking!**

Bill Starnes is the founder and senior advisor at Mallard Advisors, LLC

Investment Commentary

For all the drama we've experienced in the past few months, the second quarter of 2015 has resulted in slightly positive returns in many of the U.S. and global asset classes even with disturbing news from Europe, China, Greece, and Puerto Rico.

The Vanguard 500 Index Fund—a measure of U.S. larger-cap—was up a meager 0.3% for the second three months of 2015, posting a total return of 1.2% in the first half of the year. However, the month of June is notable because the index declined almost 2%, the worst performance since January.

Total Return as of 06/30/2015

.	June	2nd Qtr	YTD	Last 12 Months
GLOBALLY DIVERSIFIED BALANCED PORTFOLIO**				
60% Equtiy / 40% Bond	-1.3%	0.0%	2.0%	0.4%
STOCKS				
Larger-Cap	-1.9%	0.3%	1.2%	7.3%
Smaller-Cap	-0.9%	-0.6%	4.1%	5.1%
International - Developed Mkts	-2.7%	1.3%	5.4%	-4.6%
International - Emerging Mkts	-2.4%	1.7%	3.8%	-2.6%
Real Estate	-4.6%	-10.5%	-6.3%	3.7%
Inflation Hedges*	-4.3%	-1.2%	-2.4%	-22.4%
BONDS				
Investment Grade Bonds	-1.0%	-1.8%	-0.2%	1.6%
Emerging Local Market Bonds*	-1.4%	-0.5%	-4.3%	-15.7%

** Each asset class is represented by a relevant Vanguard Index fund except for Inflation Hedges where the Morningstar Category average for **"Natural Resources"** is used, and for Emerging Local Market Bonds where **PIMCO Emerging Local Bond** is used.*

*** The portfolio is represented by the DFA Global Allocation Fund (60% Equity / 40% Bond)*

Small company stocks, as measured by the Vanguard Small Cap Index Fund, gave investors a 0.6% loss during the latest three months, but the index is up 4.1% so far in 2015.

Meanwhile, in the global markets, the broad-based Vanguard Total International Stock Index of stocks in developed foreign economies gained 1.3% in dollar terms in the second quarter of the year, but has posted a 5.4% gain for the year. Emerging markets stocks of less developed countries, as represented by the Vanguard Emerging Markets Index, were up 1.7% for the quarter, and are up 3.8% for the year.

Looking over the other investment categories, real estate investments, as measured by the Vanguard REIT index, fell 10.5% for the second quarter, wiping out modest first quarter gains and bringing the index to a 6.3% loss for the year. Inflation hedges, as measured by the Morningstar Natural Resources Category Average, lost 1.2% in the second quarter, and are down 2.4% this year.

Investment Commentary

As is the norm, investors who watched the markets experienced the anxiety of a roller coaster ride of ups and downs in the U.S. and global markets. There were small panics and rallies that simply cancelled each other out in what traders refer to as a "sideways market". Investors continue to have concerns over interest rates, waiting for the Federal Reserve Board to finally take its foot off of interest rates.

Of course investors have been waiting for this shoe to drop for the better part of three years (and the markets are already pricing this in). Meanwhile, interest rates have remained at historically low levels. The Bloomberg U.S. Corporate Bond Index now has an effective yield of 3.34% and 10-year Treasuries currently yield 2.36%,. This looks remarkably low until you realize that of all the European nations, only Greece on the verge of default (with 14.56% effective yields on bonds sold on the secondary market) and Portugal are more generous.

At the low end, you need a microscope to see the yield on 3-month U.S. T-bills at 0.01%. 6-month bills are only slightly more generous at 0.11%. Your money earns almost as much when it sits under your mattress.

There is widespread speculation that the Fed will raise the Fed funds rate by 0.25% in September. This is sure to cause a mild panic among ordinary investors and quick-switch traders, despite the fact that Federal Reserve chairperson Janet Yellen has made her intention to raise rates sometime this year very clear. You can expect a continuing churn in the markets caused by the uncertainty over whether **Greece** will leave the Eurozone and default on its debt—and wild (and almost certainly specious) speculation that maybe Spain, Portugal, Ireland, and even Italy will decide to follow suit. While quite unlikely, the fact that some people will believe it's possible will send markets reeling for essentially no reason.

To put Greece in perspective, its market capitalization (i.e., value of all of their businesses) is $28 billion. For reference, Nigeria and Pakistan are both $26 billion, while the market cap of Apple is $643 billion! If the value of all Greek businesses disappeared, that would be the same as the value of Apple fluctuating by 4%. Of course, what actually happens will be determined more so by psychological factors (i.e., fear) rather than economic factors. These fears could certainly impact spending, borrowing, and investment markets. Also, what is happening in Greece could spread to other countries/territories who have similar problems living within their means. For example, the U.S. island territory of Puerto Rico is dangerously close to defaulting on roughly $72 billion in bond debt.

All of these interesting stories and potential catastrophes are unlikely to affect the long-term returns of a globally diversified portfolio. In the short-term, we don't know if the Greece situation will lead to a correction, a catalyst, or an excuse for investors to sell stocks to secure recent gains. Perhaps it just passes with little to no market damage as it has for the last several years. Forget the guessing game.

It bears repeating: investors lose far more money by trying to avoid future market downturns (by strategy seeking) while the markets are still going up, than by holding their ground during actual downturns in anticipation of a recovery. In every case, including world wars, the threat of nuclear war, bankruptcies. Presidential assassinations, and terrorist attacks on U.S. soil, the **U.S. market has eventually made up the ground it lost in every bear market we've experienced.**

People who listen to the alarmists tend to lose out on solid returns. If you listen to the alarmists, or believe that your portfolio is at risk because of this or that scary headline, listen at your peril.

The key is to **maintain *emotional* discipline** and this is best done by avoiding the alarmists. Succumbing to the temptation to "strategy seek" or jump into "what is working" based on a recent run of outperformance is a path to disappointment and subpar longer-term investment results.

Bill Starnes is the founder and senior advisor at Mallard Advisors, LLC

Your Data is Already for Sale

With the recent IRS related fraud issues (IRS imposters, and IRS security issues) I have been thinking and reading more about fraud, identity theft, and methods of protecting clients from such problems. **Identity theft** occurs when someone uses your name, Social Security Number, date of birth, or other identifying information, without permission, to commit fraud. For example, someone may have committed identity theft by using your personal information to open a credit card account or get a loan in your name.

Last Sunday on 60 Minutes, the program highlighted the problems at the IRS which allowed countless criminals to participate in identity tax refund fraud, thereby collecting (at least) $5.2 billion dollars in unrecoverable tax dollars. Per Steve Kroft, "Proving once again what every con man already knows: there is no underestimating the general dysfunction and incompetence of government bureaucracy." The IRS commissioner seemed to blame the outdated systems that the IRS is built upon.

Just in the last year, the Office of Personnel Management (twice), JP Morgan Chase, and Home Depot have also had well publicized data breaches. However, these were just the big ones. Worse, the ***Identify Theft Resource Center*** reports that in 2014 there were actually 783 major data breaches. See the following link for an outstanding visual of major data breaches over time: VISUAL

It also may not be the major breaches that get you. As mentioned on ***60 Minutes***, con artists buy patient names from office workers in small dental offices (and likely other similar small offices) with access to very sensitive information.

So, it is obvious that our information is not safe, and worse, that it is ***already for sale!*** Therefore, since our information is already out there, what can we do to protect ourselves? Most of the following tips come from either ***KrebsOnSecurity*** website or ***ConsumerReports***:

- Place a **security freeze** on your credit file at all of the credit reporting agencies (Equifax, Experian, Innovis, and Trans Union). A security freeze stops anyone from obtaining credit information from the agencies, thereby stopping banks from opening accounts in your name by fraudsters. They may still try to open credit accounts, but won't be successful. Once frozen, you can apply for credit by lifting the freeze for any desired credit reporting agency using a PIN number provided by each agency. There is generally a fee of $0-$20 (based upon age, or if you are a victim) to place a credit freeze. This must be done for each individual (you and your spouse) for ALL credit reporting agencies. If you don't open credit accounts frequently, this may be a relatively easy method of helping to prevent identity theft and the corresponding challenge of cleaning up the mess. To learn more, go to the following link:

  Krebs: Embrace the Credit Freeze Article

  Credit Freeze FAQ's

- **Fraud alerts** (which are similar to a security freeze) can be placed (at no cost) on your credit file with each credit agency, **but only last 90 days** until they need to be renewed. Therefore, this is not a viable long-term protective solution. Consider a security freeze instead.

- In addition to placing an "alert" on your credit file, you can also do the same with ChexSystems. Banks rely on data from ChexSystems

Your Data...Continued

when opening checking or savings accounts, just as banks rely on the credit bureaus when opening credit accounts. This can prevent savings/ checking accounts from being opened without your consent. Naturally, as with a credit freeze/ alert, this will delay your ability to open accounts yourself. You can learn more at the following link: [ChexSystems Security Alert Info]

- The credit monitoring services are not terribly valuable unless you have been a recent victim of identity theft, or don't have time to monitor your credit file yourself.

- Monitor your own credit report from each bureau at www.annualcreditreport.com. I use Credit Karma to do so. Monitoring your report is one of the best ways to spot signs of identity theft, such as errors and suspicious activity and accounts or addresses you don't recognize.

- Another great way to spot suspicious activity quickly is to set up alerts (online) with your credit card accounts that will text or email you in the event the account is being used without the card being present, or if the card is being used overseas. I was able to do this with both my American Express and Mastercard.

- Opt out of all unsolicited credit card or insurance offers for the next seven years by going to www.optoutprescreen.com or calling 888-5OPT-OUT. This stops crooks from stealing valuable information from your mailbox, and stops a flood of irritating mail. This is free.

- Young children's names and Social Security numbers are also out there (schools/doctors) and may also be stolen and used. Therefore, as your child gets close to age 16, it is a good idea to check whether they have a credit report (which may be a sure sign of fraud), so that it can be cleared up prior to their need for a job

- When sending any personal confidential information to Mallard Advisors, use our secure ShareFile link (located in every email from us).

- Shred all personal confidential information.

- Are you on Medicare? If so, your Social Security number is on your Medicare card and may be in your wallet. This is a problem in the event of a lost wallet! My father gets around this by carrying a photocopy of his Medicare card, but with the first six digits of the card blacked out. If the doctor's office wants the first six digits, he gives it to them verbally.

- Be suspicious when providing any personal identifying information over the phone or internet.

- Change your password (make them strong), e-mail address, and usernames regularly.

- Monitor your on-line accounts. I use mint.com to monitor all my accounts in real time from one website.

- Use anti-virus, anti-spyware/malware, and a firewall on all computerized devices.

- If an organization other than a financial institution, utility company or employer asks for your Social Security number, ask whether you can provide only the last four digits or an alternate form of identification.

- If you have an account with a company that has a breach, change your password immediately. If you use that same password for other accounts, update those accounts too. Also delete any stored credit card information from these online accounts.

- If you receive a notification letter from a breached company, follow any instructions for securing your identity (such as signing up for free credit monitoring service) and stay on alert for the signs of identity theft.

I hope you find these tips helpful. If you have any other suggestions, please pass them along!