



Helping Successful People Make  
Smart Decisions About Money

SPRING 2020

## EVERY INVESTOR CAN USE A SEAT BELT

One of the benefits of working with an advisor is the counsel they provide during times of market turbulence. We recently experienced such a period during the COVID-19 crisis, with the stock market losing 33% in just 34 days during February and March.

While it is impossible to know if the worst of COVID is behind us, market volatility is the price of admission to maintaining one's long-term purchasing power. Some investors are skeptical of the value of our counsel related to their behavior during times of market tumult. They may have weathered previous market declines without difficulty or believe they are immune to the vagaries market reversals can inflict on one's psyche.

My experience has been that as one approaches and enters retirement, one's market resilience decreases. **It is at such a time that our counsel is far more valuable.** Consider a hypothetical investor, Mary, who became anxious during March. Let's assume she had a 60/40 equity to bond allocation. After a couple of weeks of steady market declines, Mary reads *The Wall Street Journal* on Wednesday March 18 and decides this time is different. "I'm getting out of the market," she tells herself.

The S&P 500 is at 2398. For the next few days, she breathes a sign of relief as the market continues down. The health crisis worsens, and unemployment claims skyrocket, but unbeknownst to everyone the stock market has bottomed (at least as of this writing) at 2237 on March 23. The market continues upward despite dour economic news and ever increasing COVID cases. By the end of May, the S&P 500 is at 3055, up about 26% from when Mary sold her stocks. She is now in a "Catch-22"—should she capitulate and re-enter the market or continue to wait for a pull back? What if the pull back never comes?

A June 15 story in *The Wall Street Journal* reported that Fidelity revealed of the approximately 10% of investors age 65 and up who made changes to their portfolios between February and March, nearly 1/3 moved some money out of stocks. While this data only represents a small sample size, one can infer that moves away from stocks during this period by retirees were common.

It is always different, and it is always the same. The "causes" of every substantial market decline usually only reveal themselves after the fact, if at all. And while the severity of decline in such a short span was unprecedented, the percentage decline was fairly normal.

### THE WALL STREET JOURNAL

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MARKET SUMMARY: S&P 500 2398.00 • NASDAQ 7043.15 • DAX 15,100.00 • FTSE 100 7,100.00 • Nikkei 22,500.00 • Hang Seng 26,000.00 • ASX 100 7,100.00 • BSE SENSEX 31,000.00 • NSE NIFTY 10,000.00

#### Stocks Slide Amid Clampdown

Governments Enforce Stricter Measures To Slow Spread of Infections in U.S., Europe

Dow Industrials Plummet Nearly 3,000 Points

**U.S. stocks plunged** as investors fled the market in panic. The S&P 500 index fell more than 10% in early trading, with the Dow Jones Industrial Average dropping nearly 3,000 points. The decline was the steepest since the 2008 financial crisis. Analysts say the market is overreacting to news of the health crisis and government lockdowns. The S&P 500 is now down about 10% from its peak in early February. The Dow Jones Industrial Average is down about 15%.

I like to think of an advisor as an investor's seat belt. You are driving along, enjoying a relaxing drive through the countryside. Then suddenly, WHAM! Out of nowhere a car slams into you from the side. Since you had on your seat belt, you walk away with just a bruise.

For investors, there will be occasions during your investing journey (unpredictable in terms of timing, duration and degree) when the stock market goes haywire. Some call such an event a correction, others a "crash." Whatever one calls it, if you have an advisor (a seat belt if you will) you are far more likely to avoid serious financial injury.



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# IS LACK OF MARKET BREADTH REASON FOR CONCERN?

Over the last few weeks, I've seen numerous pundits opine on CNBC about the lack of market breadth in the recent stock market rally. What exactly does this mean and what are the implications for investors?

The picture below helps explain what is meant by market breadth. Each stock in the S&P 500 is represented by a rectangle, the size of the rectangle is commensurate with that company's weight in the S&P 500. A green rectangle means the stock is up for the year (the brighter the green, the higher the return) and a red rectangle means the stock is down (brighter red means bigger loss). A quick glance at the chart shows more red shades than green, but also notable are the handful of large boxes that are very green. This is what is known as lack of market breadth—just a few large stocks enjoying most of the gains.



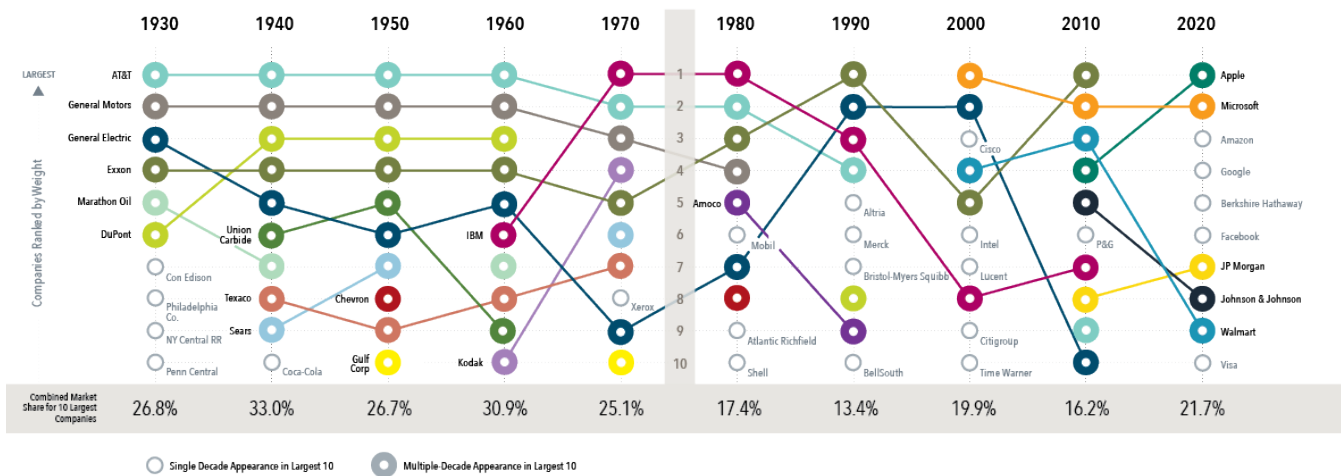
The TV talking heads would have you believe this is a new phenomenon and a troubling sign for the market. "The FAANG stocks are getting a little long in the tooth," one expert wryly commented. A catchy phrase, but should you make investment decisions based upon glib word play? Before we see what history and data have to say on this point, remember that TV is entertainment, and boring content does little for viewership. Telling viewers to buy index funds and go outside and enjoy the beautiful spring sunshine probably won't get a commentator invited back.

It's nothing new for a handful of stocks to make up a large percentage of the index. As the chart below illustrates, the top ten stocks in the S&P 500 have averaged comprising about 22% of the total index over the last 50 years. More interesting is the leadership changes over time. Only five of the current top 10 largest companies were in the list just a decade ago. Three of the ten barely existed twenty years ago. The takeaway? Free markets are dynamic, and relying on predictions for investment success rarely works.

As for the predictive indicators of market breadth, there simply are none. In 1960, with market leadership at 30%, the market returned 13% annualized over the next two years. In 2000, with leadership at 20%, the next two years returned -10% annually for investors. There's no correlation between market breadth and future returns.

**We invest in the collective economic bounty that free market capitalism has delivered for over 400 years.**

Our investing philosophy is as old as Aesop's Fables and as clear as compound interest. We never try to divine the daily, monthly or quarterly direction of the market, for the simple reason no one knows with any high probability. We invest in the collective economic bounty that free market capitalism has delivered for over 400 years. It's a narrative that is unlikely to find appeal on CNBC, but one that has delivered successful investment experiences for our clients for over two decades. Successful investing is always simple, but never easy.





## WHY IS IT SO HARD TO PICK STOCKS THAT BEAT THE MARKET?

I occasionally get asked by friends and clients why our firm uses an evidence-based investment approach, one focused on capturing asset class returns rather than picking stocks one thinks will beat the market going forward.

There is overwhelming evidence showing most mutual fund managers fail to beat the market (see the most recent SPIVA data if you need convincing). While data tells the “what”—a story is more powerful and tells the “why.”

My mother is an avid antique collector, attending antique shows across the state. Last fall she attended an antique fair at the coast where scores of vendors had booths, with thousands of items for sale. On this trip I decided to tag along, hoping to find a “deal”—something significantly underpriced, that I might flip for a tidy profit. Sounds plausible, right?

**But consider just some of the hurdles I face in landing such a bargain:**

- I need to arrive at the sale early.
- I need special knowledge of specific types of antiques.

- I have to hope no other shoppers have similar knowledge (or access to smart phones to look it up).

**Would you be willing to bet that I’d be able to find a bargain worth buying? Probably not.**

Think of the antique show as the stock market. Except in the case of the stock market, there are literally millions of other shoppers. The market is comprised of mostly professional bargain hunters, shopping every day, where prices instantly provide information that is quickly processed by other buyers and sellers. That’s what makes our approach so appealing. We don’t have to find the needle in the haystack—we just buy the whole haystack.

And did I mention it is perhaps the least expensive investment strategy available?

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## BEHIND THE SCENES



**Grace Palmer**, daughter of Mike & Meredith Palmer, recently graduated from Broughton High School. Grace will be attending UNC-Chapel Hill this fall. Congrats Grace!



**Cameron Shirley**, daughter of Lisa & David Shirley, recently graduated from Elon University with a Masters of Higher Education. She has accepted a position as Title III Project Director at Davidson County Community College. Congrats Cameron!

*“The intuitive mind  
is a sacred gift,  
the rational mind  
is a faithful servant.”*

ALBERT EINSTEIN

### *The* CORNERSTONES *of* ARK ROYAL WEALTH MANAGEMENT



**To nurture a culture that puts our client's interest first—always**



**To be truthful at all times, to be intellectually honest with ourselves  
and with our clients, even if it isn't what they want to hear**



**A commitment to lifelong learning, and a passion for applying  
our wisdom efficiently and effectively every single day**



**Align what you say, what you do and what you think to honor  
yourself, your family and our firm**

