Market Commentary - July 2016 View this email in your browser

Much has been written about Brexit (Great Britain's pending exit from the EU) so there is little need for additional analysis from us. We would, however, like to briefly highlight three ways it may affect U.S. investors:

1. **Wealth Effect:** Much of the $3 trillion lost in global wealth on June 24 and 27 has been recouped. Nevertheless, another serious downturn in stock prices, though not anticipated, could have a negative wealth effect on U.S. investors, slowing consumer spending and GDP growth.
2. **Globalization:** Even if the U.K. falls into recession, the impact on trade with the U.S. would have the same effect as a drop in oil prices of a few dollars to the energy sector–meaning not much impact.
3. **Fed policy:** The uncertainty of Brexit makes it extremely unlikely the Fed will resume rate normalization this year. The Fed is on hold indefinitely.

The Importance of Having a Long-Term Focus

Investors can be distracted by the news of the day; whether Brexit, the volatile price of oil, or a rumored change in Fed policy. But these "news events" typically have little bearing on the fundamental value of stocks. So why all the volatility in the markets and with individual stocks? Part of it can be attributed to the media message of risk-on/risk-off. Traders and short-term investors can and do respond (daily) to the perceived risk of the markets and change their portfolios accordingly. **A short-term trading strategy of this sort is highly likely to be a losing strategy for investors who want to build significant wealth over time.**

It is no surprise to us that there are fewer buy-and-hold investors today than in past years, but the magnitude of the change in investor holding periods is astounding. Let's take a look at average holding periods going back to the 1940s.

Fewer Buy and Hold Investors

	Average Holding Period
1940s	7 Years
1960s	5 Years
1980s	2 Years
2014	7 Months

Source: Das, Satyajit. *The Age of Stagnation: Why Perpetual Growth is Unattainable and the Global Economy is in Peril.* 2016

The table indicates that the average holding period for stocks has plummeted from 7 years in the 1940s to about 7 months today (high frequency trading accounts hold stocks for 10 seconds on average). A 7-month holding period translates into portfolio turnover of almost 2 times each year. What happened to long-term investing? Perhaps a better question is what happened to investing at all? Holding a stock for 7 months is not investing, it is short-term trading.

Short-term investment strategies, assuming they work, cause a large amount of trading and thus the realization of many short-term gains. These gains are taxed at the taxpayer's top marginal tax rate of around 40%. Investors with short-term time horizons have a harder time accumulating long-term wealth. Regardless of the equity strategy employed, avoiding market timing (such as risk-on/risk-off), engaging in fewer transactions, and maintaining a long-term focus should support a much improved outcome.

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