NOTTINGHILL INVESTMENT ADVISERS, Ltd.

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Perspective

This and That

March 17, 2017

Dull moments may be the norm in some businesses, but there's never a dull moment in this business. As 2017's first quarter winds down, we want to say a few words about where things currently stand and a couple of recent happenings.

Where Are We?

> *"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria."*
>
> -- *John Templeton*

Sometime during the trading day of March 6, 2009, the 2007-2009 bear market came to an official end – the S&P 500 Index bottomed at 666.79. At that point, the Index was down 57% from its October 2007 high and at a level not seen since 1996 (yes, by that definition U.S. equities had gone nowhere in 13 years). You remember those days. The real estate market was in total shambles, banks of all sizes and shapes were failing, and talk of Depression 2.0 was everywhere. But, clearly born on pessimism, the bull market that continues to this day began. March 6, 2009 turned out to be the day. Who knew?

Who knew? With any certainty, no one, just as no one knew with any certainty that October 2007 would mark a major market top and just as no one will know with any certainty that the 2009- bull market is coming to an end. Market timing is indeed a lonely and frustrating business for all of us mere mortals. But, as we say in all those client letters, that doesn't mean we should ignore what the stock market may be telling us or what has been going on. So, where are we?

After eight years and a 250% advance, most would concede that the bull market is "mature"; however, is the optimism out there unbridled, and soon to morph into euphoria? Probably not, and probably not. Granted, with the current post-election run up tacked on, U.S. equities have come a very long way from that March 2009 low, and the S&P currently sells for about 26x the earnings (trailing 12 months) of its component companies. However – and this is important – while a P/E of 26x is well above-average, the U.S. economy clearly is gathering steam, and the outlook for corporate earnings (the E in the S&P's P/E) is very good. Very good that is in the midst of a more business-friendly, pro-growth environment. Are we in fact in such an environment? That's where the optimism comes in, but that optimism is not unbridled – there's a lot of pro-growth work to be done.

How about the euphoria part? We don't quite see it. The valuation accorded the overall stock market may not be compelling, however, the current situation contrasts sharply with, say, the dot-com bubble of 1999-2000 and other infamous stock market tops. At this point, individual bargains actually still exist, and everyone's latest stock market coup has yet to be the primary topic of conversation at most cocktail parties.

With that as background, a couple of things to keep in mind. First, U.S. equities have delivered 9-10% per year for the last 90+ years, but enjoying that prosperity has come at a price: a requirement that one endure periodic stock market corrections, which in fact are inevitable. The kind of unbridled optimism soon-to-become euphoria mentioned above is associated more with major stock market tops of the 1999-2000 variety. Inevitable stock market correction or something more prolonged, however, we're not market timers. Instead, we pay attention to what the stock market is saying, even as our advice remains the same: Stay diversified, and stay the course with your well-considered plan.

The Fiduciary Rule

> *"fi•du•ci•ar•y…1: a person or organization that owes to another the duty of good faith and trust. The highest duty of one party to another, it also involves being bound ethically to act in the other's best interests."*
>
> -- *Investopedia*

One year ago, the Department of Labor unveiled the so-called fiduciary rule, which is due to take effect next month. What the rule will do is hold <u>all</u> who work with retirement savings to a <u>fiduciary</u> standard, as opposed to the less stringent <u>suitability</u> standard that currently exists. Under the former, advisers are required to work in their clients' best interests, while, under the suitability standard, advisers are required only to make recommendations that are suitable for their clients.

Frankly, we've had mixed emotions regarding this fiduciary rule since Day One. Nottinghill is a registered investment adviser. All registered investment advisers <u>are</u> fiduciaries; and, retirement or taxable assets, we always do work and always have worked in our clients' best interests. So, nothing changes within these four walls. It's just that, whether we're talking fiduciary standard, suitability standard, whatever standard, the operative dictate now and for all time is "know your client/know your adviser." As we preached in "Shenanigan" (February 2014) and have preached elsewhere forever, if someone appears to be feathering his/her own nest or something doesn't seem right, ask questions (agitate, as Frederick Douglass said). There are bruised (even rotten) apples in every barrel, but RIA or non-RIA, most of the people in the retirement adviser business are people of high-integrity and dedication. If you ever suspect otherwise, agitate immediately.

As an update, for now the fiduciary rule is on hold while the new administration takes a hard look. We'll let you know what happens.

Commission Wars

It's the summer of 1970. The Beatles have just broken up, and you're all bummed out. Also, armed with that newly acquired sheepskin, you're at one of life's pivot points. The days of spending a lot of idle time with the next hot band at your favorite college watering hole are gone forever, and you now have to start thinking about a career, paying your own rent (what?), and saving for retirement (!) Regarding the latter, everyone tells you that the stock market has delivered 9-10% per year over time and that a call to your family's stockbroker might be a good place to start. Your first trade is a buy of 100 shares of Acme Avionics at $25 per share. The commission on that and all other trades in 1970 is dictated by the NYSE's old fixed commission schedule, and works out to be $49. And, get this, your classmate who went to work for the local trust department is paying pretty much the same per-share charge for his 1,000- or 5,000-share orders.

On May 1, 1975 (May Day, as they used to say with a growl), all that changed. The old fixed commission schedule to which everyone had to adhere was abolished, and brokerage firms were free to charge whatever they liked. Overall, of course, commissions went down dramatically, but the world did not come to an end, as so many had predicted.

Ticket charges have been declining for 42 years, but what's going on now constitutes a certifiable price <u>war</u>, at least in the online world. Within the past few weeks, a prominent online broker slashed its per-ticket charge to $4.95, and now all the major players are at $4.95 - $6.95 (100 shares, 1,000 shares, 10,000 shares). That's a long way from what our friend paid in 1970, but we should point out that the earlier trade may have involved (almost certainly did involve) a lot more in the way of personal attention and ancillary services that won't be there at $4.95 - $6.95 per ticket. So, an online brokerage arrangement may not be appropriate for everyone, for a number of reasons; such an arrangement almost certainly involves a reduced level of service; and, don't count on any Holiday poinsettias. But, those are eye-catching numbers for bare-bones custody and brokerage, and…the drama continues.

Electronic Delivery

Speaking of the online world, we mentioned in the annual client letter that we'd be happy to deliver all client reports and other correspondence electronically to anyone who prefers that kind of arrangement. The offer stands. Please e-mail Lindsay Mason (lmason@nottinghilladvisers.com), and we'll make it happen.

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That's about it for now. If you have any questions or we can clarify any of the points made, please contact us.

Best regards,

Doug, Jeff, and Lindsay