INVESTMENTNEWSLETTER

> *Over the course of a summer, it's not unusual for the stock market to be a topic of conversation at barbeques or other social gatherings.*

TIMING ISN'T EVERYTHING

JULY 2019 | Dimensional Fund Advisors

A neighbor or relative might ask about which investments are good at the moment. The lure of getting in at the right time or avoiding the next downturn may tempt even disciplined, long-term investors. The reality of successfully timing markets, however, isn't as straightforward as it sounds.

OUTGUESSING THE MARKET IS DIFFICULT

Attempting to buy individual stocks or make tactical asset allocation changes at exactly the "right" time presents investors with substantial challenges. First and foremost, markets are fiercely competitive and adept at processing information. During 2018, a daily average of $462.8 billion in equity trading took place around the world.[1] The combined effect of all this buying and selling is that available information, from economic data to investor preferences and so on, is quickly incorporated into market prices. Trying to time the market based on an article from this morning's newspaper or a segment from financial television? It's likely that information is already reflected in prices by the time an investor can react to it.

Dimensional recently studied the performance of actively managed mutual funds and found that even professional investors have difficulty beating the market: over the last 20 years, 77% of equity funds and 92% of fixed income funds failed to survive and outperform their benchmarks after costs.[2]

Further complicating matters, for investors to have a shot at successfully timing the market, they must make the call to buy or sell stocks correctly not just once, but twice. Professor Robert Merton, a Nobel laureate, said it well in a recent interview with Dimensional:

"Timing markets is the dream of everybody. Suppose I could verify that I'm a .700 hitter in calling market turns. That's pretty good; you'd hire me right away. But to be a good market timer, you've got to do it twice. What if the chances of me getting it right were independent each time? They're not. But if they were, that's 0.7 times 0.7. That's less than 50-50. So, market timing is horribly difficult to do."

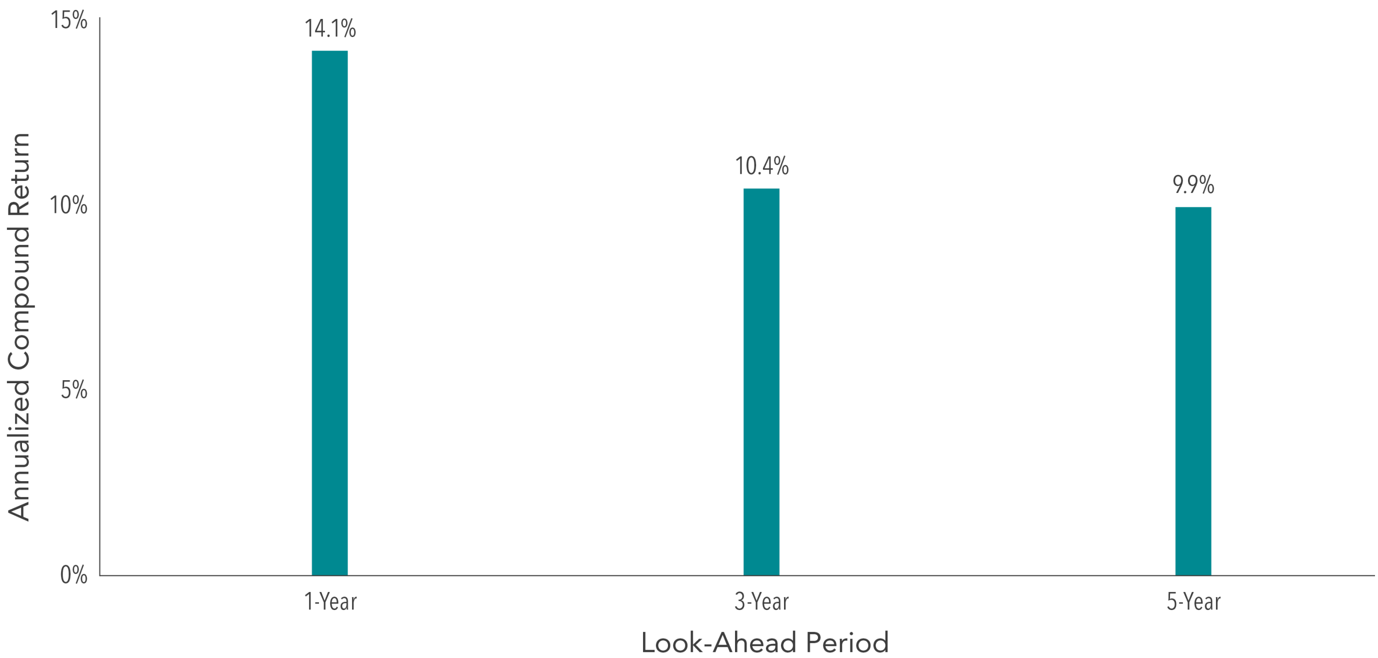
1 In US dollars. Source: Dimensional, using data from Bloomberg LP. Includes primary and secondary exchange trading volume globally for equities. ETFs and funds are excluded. Daily averages were computed by calculating the trading volume of each stock daily as the closing price multiplied by shares traded that day. All such trading volume is summed up and divided by 252 as an approximate number of annual trading days.
2 Mutual Fund Landscape 2019.

FirstCapital Bank of Texas
You above all.

TIME AND THE MARKET

The S&P 500 Index has logged an incredible decade. Should this result impact investors' allocations to equities? **Exhibit 1** suggests that new market highs have not been a harbinger of negative returns to come. The S&P 500 went on to provide positive average annualized returns over one, three, and five years following new market highs.

Exhibit 1. Average Annualized Returns After New Market Highs, *January 1926–December 2018*



In US dollars. Past performance is no guarantee of future results. New market highs are defined as months ending with the market above all previous levels for the sample period. Annualized compound returns are computed for the relevant time periods subsequent to new market highs and averaged across all new market high observations. There were 1,115 observation months in the sample. January 1990–present: S&P 500 Total Returns Index. S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. January 1926–December 1989; S&P 500 Total Return Index, Stocks, Bonds, Bills and Inflation Yearbook™, Ibbotson Associates, Chicago. For illustrative purposes only. Index is not available for direct investment; therefore, its performance does not reflect the expenses associated with the management of an actual portfolio. There is always a risk that an investor may lose money.

CONCLUSION

Outguessing markets is more difficult than many investors might think. While favorable timing is theoretically possible, there isn't much evidence that it can be done reliably, even by professional investors. The positive news is that investors don't need to be able to time markets to have a good investment experience. Over time, capital markets have rewarded investors who have taken a long-term perspective and remained disciplined in the face of short-term noise. By focusing on the things they can control (like having an appropriate asset allocation, diversification, and managing expenses, turnover, and taxes) investors can better position themselves to make the most of what capital markets have to offer.

TREAT YOUR WORK AS A RETIREMENT ASSET

JULY 2019
Morningstar

Income from work is one of the most critical parts of your retirement plan, especially in the last decade of your career. It's a time when most people enjoy career-high earnings and sometimes have the opportunity to play catch-up on savings. And extending your number of years at work helps make it possible to boost monthly Social Security income down the road through delayed filing credits.

But wages can be a risky income source at this time of life, and that can play havoc with your retirement plan. Just under 40% of workers retire earlier than expected, usually owing to job loss or health problems. Those who lose jobs unexpectedly and then secure new positions often do so at far lower levels of pay.

That means it's important to treat your work as an asset that needs careful management in the years leading up to retirement. Research on human capital suggests that this asset must be balanced against other financial resources according to its level of risk. But it's also important to make investments to maximize human capital, as it tends to dwindle toward the end of careers.

The goal here is not necessarily to stick with the job you've been doing--it could involve a shift to part-time work, consulting, an entrepreneurial project, or gig work in the sharing economy.

One bit of good news: The job prospects for older workers seem to be improving. That's not to say many employers have received the message about the value of keeping older workers around--I'll believe that when I see it, and so far there is plenty evidence to suggest that age discrimination remains rampant and largely unchecked.

A 2009 U.S. Supreme Court decision made it tougher for workers to prove age discrimination claims under the Age Discrimination in Employment Act, and legislation has been proposed to shore up the law. High-profile cases of alleged discrimination continue to surface--for example, ProPublica in 2018 documented widespread age discrimination at IBM, and a group of employees recently sued the company, accusing it of failing to comply with federal employment law.

Instead, laws of supply and demand drive the improved outlook. Labor markets are much tighter now than they were during the Great Recession of 2008-09 and for many years after that.

"There is a fundamental shift going on in the economy, and there's no going back," argues Chris Farrell, author of Purpose and a Paycheck: Finding Meaning, Money, and Happiness in the Second Half of Life, a new book that offers a close look at how the economy is evolving as the country ages. "And what has accelerated the shift is this relatively tight labor market that we're now experiencing."

Indeed, in May 2019, the jobless rate for workers age 55 and older was 2.7%, nearly 1 percentage point lower than the national rate of 3.6%.

A recent survey by Willis Towers Watson of 143 large employers found that they are adopting a range of new strategies for near-retirees. One third of the employers have adopted flexible employment options; half now engage former employees as consultants or contingent workers; a smaller number--9%--are adopting phased retirement programs.

In most cases, companies adopting these practices are doing it on an ad hoc basis, says Alan Glickstein, a retirement consultant at Willis Towers Watson and a co-author of the report. That means employees closing in on traditional retirement age who hope to pursue flexible work arrangements may need to make the first move.

“If you don’t ask about it, you probably won’t get it,” he says. “It’s in your mutual best interest to be open with your employer about where you are headed in the next few years. Let them know what you hope to achieve, and that you’d like to do it there if possible, but need to know what kind of options are available.”

It’s also a good idea to make an honest assessment of your career prospects around the time you turn 50. That should start with an assessment of job security. Is the industry you work in going through substantial change, or is it likely to do so in the coming decade? How about your employer?

Next, consider the value you offer to your employer. “The most important thing is to really reflect back on who you are at this point in your life,” says John Tarnoff, a career coach and author of Boomer Reinvention: How to Create Your Dream Career Over 50. “Think about what you have learned and what value you provide--not just the mechanics of what you do every day.”

Also make an evaluation of current skills and how they match up to positions you might seek before or after retirement. LinkedIn is a good resource for this exercise, suggests Marci Alboher, vice president of Encore.org.

“Look at the profiles of people doing things that might interest you and look at those jobs--what skills do they require?” Another good evaluation tool: Ask colleagues how they perceive your strengths and weaknesses. Performance evaluations also present an opportunity for these conversations.

If you’re coming up short, Alboher recommends LinkedIn Learning as an inexpensive place to acquire new skills. (She recently launched her own course there on Encore Careers.) Other ways to acquire new skills are through volunteer work or by doing an informal internship that offers the opportunity to learn.

Freshening up skills and trying new things also can prevent job burnout, which can sink later-life work plans.

“It’s critical to stay in love with your job,” says Kerry Hannon, author of Great Jobs for Everyone 50+ and a just-published book called Never Too Old to Get Rich: The Entrepreneur’s Guide to Starting a Business Mid-Life. “People will sometimes complain that they hate their job or their boss, but the truth is they’re just bored and trying to stay under the radar until it’s time to retire.”

Source: Morningstar.com. Mark Miller is a journalist and author who writes about trends in retirement and aging. He is a columnist for Reuters and also contributes to WealthManagement.com and the AARP magazine. He publishes a weekly newsletter on news and trends in the field at Retirement Revised. The views expressed in this column do not necessarily reflect the views of Morningstar.com.

KEY QUESTIONS FOR THE LONG-TERM INVESTOR

JULY 2019 | Dimensional Fund Advisors

Whether you've been investing for decades or are just getting started, at some point on your investment journey you'll likely ask yourself some of the questions below.

Trying to answer these questions may be intimidating, but know that you're not alone. Your financial advisor is here to help. While this is not intended to be an exhaustive list it will hopefully shed light on a few key principles, using data and reasoning, that may help improve investors' odds of investment success in the long run.

1. WHAT SORT OF COMPETITION DO I FACE AS AN INVESTOR?

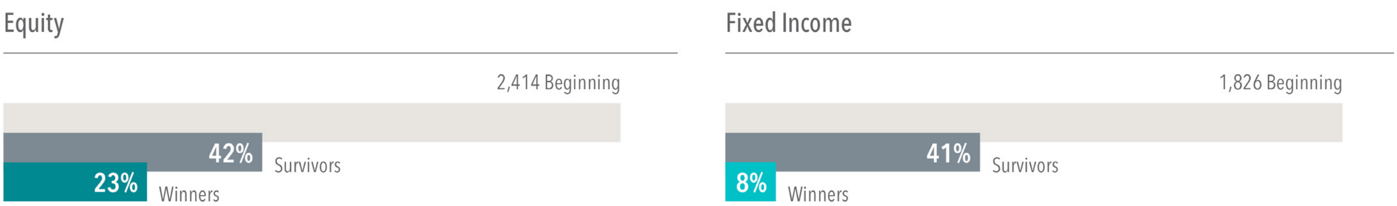
The market is an effective information-processing machine. Millions of market participants buy and sell securities every day and the real-time information they bring helps set prices.

This means competition is stiff and trying to outguess market prices is difficult for anyone, even professional money managers (see question 2 for more on this). This is good news for investors though. Rather than basing an investment strategy on trying to find securities that are priced "incorrectly," investors can instead rely on the information in market prices to help build their portfolios (see question 5 for more on this).

2. WHAT ARE MY CHANCES OF PICKING AN INVESTMENT FUND THAT SURVIVES AND OUTPERFORMS?

Flip a coin and your odds of getting heads or tails are 50/50. Historically, the odds of selecting an investment fund that was still around 20 years later are about the same. Regarding outperformance, the odds are worse. The market's pricing power works against fund managers who try to outperform through stock picking or market timing. One needn't look further than real-world results to see this. Based on research*, only 23% of US equity mutual funds and 8% of fixed income funds have survived and outperformed their benchmarks over the past 20 years.

US-Based Mutual Fund Performance, *1999-2018*



Source: *Mutual Fund Landscape 2019, Dimensional Fund Advisors. See Appendix for important details on the study. Past performance is no guarantee of future results.

3. IF I CHOOSE A FUND BECAUSE OF STRONG PAST PERFORMANCE, DOES THAT MEAN IT WILL DO WELL IN THE FUTURE?

Some investors select mutual funds based on past returns. However, research shows that most funds in the top quartile (25%) of previous five-year returns did not maintain a top-quartile ranking in the following five years. In other words, past performance offers little insight into a fund's future returns.

4. DO I HAVE TO OUTSMART THE MARKET TO BE A SUCCESSFUL INVESTOR?

Financial markets have rewarded long-term investors. People expect a positive return on the capital they invest, and historically, the equity and bond markets have provided growth of wealth that has more than offset inflation. Instead of fighting markets, let them work for you.

5. IS THERE A BETTER WAY TO BUILD A PORTFOLIO?

Academic research has identified these equity and fixed income dimensions, which point to differences in expected returns among securities. Instead of attempting to outguess market prices, investors can instead pursue higher expected returns by structuring their portfolio around these dimensions.

Dimensions of Expected Returns

Equities			Fixed Income		
Company Size	Relative Price	Profitability	Term	Credit	Currency
Market Capitalization	Price/Book Equity	Operating Profits/ Book Equity	Sensitivity to Interest Rates	Credit Quality of Issuer	Currency of Issuance

Relative price is measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book.

6. IS INTERNATIONAL INVESTING FOR ME?

Diversification helps reduce risks that have no expected return, but diversifying only within your home market may not be enough. Instead, global diversification can broaden your investment opportunity set. By holding a globally diversified portfolio, investors are well positioned to seek returns wherever they occur.

7. WILL MAKING FREQUENT CHANGES TO MY PORTFOLIO HELP ME ACHIEVE INVESTMENT SUCCESS?

It's tough, if not impossible, to know which market segments will outperform from period to period. Accordingly, it's better to avoid market timing calls and other unnecessary changes that can be costly. Allowing emotions or opinions about short-term market conditions to impact long-term investment decisions can lead to disappointing results.

8. CAN MY EMOTIONS AFFECT MY INVESTMENT DECISIONS?

Many people struggle to separate their emotions from investing. Markets go up and down. Reacting to current market conditions may lead to making poor investment decisions.

9. SHOULD I MAKE CHANGES TO MY PORTFOLIO BASED ON WHAT I'M HEARING IN THE NEWS?

Daily market news and commentary can challenge your investment discipline. Some messages stir anxiety about the future, while others tempt you to chase the latest investment fad. If headlines are unsettling, consider the source and try to maintain a long-term perspective.

10. SO, WHAT SHOULD I BE DOING?

Work closely with a financial advisor who can offer expertise and guidance to help you focus on actions that add value. Focusing on what you can control can lead to a better investment experience.

- Create an investment plan to fit your needs and risk tolerance.
- Structure a portfolio along the dimensions of expected returns.
- Diversify globally.
- Manage expenses, turnover, and taxes.
- Stay disciplined through market dips and swings.

APPENDIX

Question 2: The sample includes funds at the beginning of the 20-year period ending December 31, 2018. Each fund is evaluated relative to its respective primary prospectus benchmark as of the end of the evaluation period. Surviving funds are those with return observations for every month of the sample period. Winner funds are those that survived and whose cumulative net return over the period exceeded that of their respective primary prospectus benchmark. Loser funds are funds that did not survive the period or whose cumulative net return did not exceed that of their respective primary prospectus benchmark. Where the full series of primary prospectus benchmark returns is unavailable, funds are instead evaluated relative to the Morningstar category index assigned to the fund's category at the start of the evaluation period.

Question 3: This study evaluated fund performance persistence over rolling periods from 1999 through 2018. Each year, funds are sorted within their category based on their previous five-year total return. Those ranked in the top quartile (25%) of returns are evaluated over the following five-year period. The chart shows the average percentage of top-ranked equity and fixed income funds that kept their top ranking in the subsequent period.

Questions 2 and 3: US-domiciled open-end mutual fund data is from Morningstar. Equity fund sample includes the Morningstar historical categories: Diversified Emerging Markets, Europe Stock, Foreign Large Blend, Foreign Large Growth, Foreign Large Value, Foreign Small/Mid Blend, Foreign Small/Mid Growth, Foreign Small/Mid Value, Global Real Estate, Japan Stock, Large Blend, Large Growth, Large Value, Mid-Cap Blend, Mid-Cap Growth, Mid-Cap Value, Miscellaneous Region, Pacific/Asia ex-Japan Stock, Real Estate, Small Blend, Small Growth, Small Value, World Large Stock, and World Small/Mid Stock. Fixed income fund sample includes the Morningstar historical categories: Corporate Bond, High Yield Bond, Inflation-Protected Bond, Intermediate Government, Intermediate-Term Bond, Long Government, Muni California Intermediate, Muni California Long, Muni Massachusetts, Muni Minnesota, Muni National Intermediate, Muni National Long, Muni National Short, Muni New Jersey, Muni New York Intermediate, Muni New York Long, Muni Ohio, Muni Pennsylvania, Muni Single State Intermediate, Muni Single State Long, Muni Single State Short, Short Government, Short-Term Bond, Ultrashort Bond, and World Bond. See Dimensional's Mutual Fund Landscape 2019 for more detail. Index data provided by Bloomberg Barclays, MSCI, Russell, FTSE Fixed Income LLC, and S&P Dow Jones Indices LLC. Bloomberg Barclays data provided by Bloomberg.

Source: Dimensional Fund Advisors LP.

Investment Update is published monthly by OBS Financial. All articles provided by Dimensional Fund Advisors, Morningstar, or OBS Financial. Information has been obtained from sources believed to be reliable, but its accuracy and completeness, and the opinions based thereon, are not guaranteed and no responsibility is assumed for errors and omissions. Nothing in this publication should be deemed as individual investment advice. Consult your personal financial adviser and investment prospectus before making an investment decision. Any performance data published herein are not predictive of future performance. Investors should always be aware that past performance has not been shown to predict the future. If in doubt about the tax or legal consequences of an investment decision it is best to consult a qualified expert. OBS Financial is a Registered Investment Advisor with the Securities and Exchange Commission.

CONTACT US 419 482 4500 | Marketing@obsmail.com | www.obsfs.com