FINANCIAL PLAN INC.

THE PLAN
Summer 2019

Welcome Kelsey Bouwman!

We are thrilled to introduce you to our newest Associate Advisor, Kelsey Bouwman, who joined Financial Plan at the beginning of September.

Kelsey began her career at Peoples Bank after obtaining her degree in Business with a concentration in Finance from Western Washington University. Her strong organizational and interpersonal skills along with a passion for finance will be tremendous assets to the clients she serves.

Kelsey recently celebrated her first anniversary with her high-school sweetheart, Jaremy and adopted a dog, Red, from the Whatcom Humane Society. She enjoys basketball, volleyball, and especially loves to travel (most recent trips were to Aruba and Palm Springs).

When not walking Red all over Lynden, Kelsey can be found spending time with her large, extended family (they get together every other Sunday) or around a bonfire with her close-knit, immediate family.

Please join us in welcoming Kelsey to FP Inc! She looks forward to saying hello at this year's Christmas Brunch (Save the date: Friday, Dec. 13th), but if you happen to be in the office before then, please come introduce yourself!

What Gives?

By James Twining, CFP®

If you have been paying attention, you know how much we believe in equity markets. Our clients who have a long enough time horizon and the risk tolerance to stay the course through bear markets are invested at least to some degree in massively diversified portfolios of stocks. Since 1926, the S&P 500 annually compounded return has been 10% per year (1). This makes the US stock market the greatest generator of wealth in human history. There is no other form of investment that even comes close consistently over that same time period.

Yet during that same time period between 1926 and today, most US publicly traded common stocks have lifetime returns of less than 3.3%, which was the rate of return on 1-month Treasury Bills (2). That is only .4% better than inflation over that time period! In fact, most individual stocks lose money. The average stock exists in major indexes for just seven years and the most common outcome is a total loss.

So… what gives? How can it be that the overall market index performs so well, and yet specific stocks perform so poorly? It turns out that the net gain for the entire U.S. stock market since 1926 is attributable to only the best performing 4% of the listed companies. Let that sink in a bit and consider the ramifications: Any stock chosen at random has only a one in twenty-five chance of being in the group of higher performers. There is a 96% chance that any stock you pick will have below average long- term performance. Just one in 25 stocks is worth owning for the long term compared to basic Treasury Bills.

What is happening is that a small handful of stocks deliver such impressive performance that it brings the entire average up a great deal. Of course, we can't just pick the few stocks that have done well in the past and expect those same stocks to be high performers in the future. If history is any guide, there is only a very small chance that they will continue to be in the group of high performers.

This helps explain why stock picking or predictive approaches most often underperform market averages, and it highlights the advantages of indexing. Using this information, an even better strategy would be to hold even more names than the indexes. Casting a wider net through massive diversification is the most assured way to own those high performers, thereby increasing your odds of matching or beating the market averages.

1. Dimensional Matrix Book 2019
2. Bessembinder, Hendrik (Hank), Do Stocks Outperform Treasury Bills? (May 28, 2018) Journal of Financial Economics (JFE), Forthcoming. Available at SSRN: https://ssrn.com/absract-2900447