

## General Advice and Wisdom

By Bill Koehler, CFA

In September, several FCI associates had the pleasure of hosting Brigadier General Donald Scott at our offices. After a distinguished 31-year military career, General Scott retired in 1991 and subsequently held senior leadership positions with the City of Atlanta, AmeriCorps and the Library of Congress. He was inspired to military service as a 10 year old in 1948, the same year President Harry Truman integrated the armed forces. We are a better nation because of the inspiration and call to duty he felt as a youth in Hunnewell, Missouri, 70 years ago. He is an outstanding gentleman who has contributed much to our country for decades and is still actively doing so through his writing, speaking and charitable endeavors.

During his time with us that day, General Scott told stories from his life and career which imparted important lessons

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about leadership, teamwork and resilience. He spoke of having the “courage to try” as key in overcoming

obstacles and solving problems. Many of these lessons are detailed in his book, *Recipient of Grace*, which will soon be followed by another book he is currently completing. (As an aside, we will send a free copy of *Recipient of Grace* to the first three Perspectives readers to send me an email at [bill.koehler@fciadvisors.com](mailto:bill.koehler@fciadvisors.com) requesting a copy).

### Investment Advice Too

Reflecting further on his comments, while his lessons are not overtly investment related, the General's wisdom certainly has application in the investment world.

These memorable lessons include the following:

- Look at things from more than one angle. Avoid narrow points of view.
- Know what to overlook and what not to overlook.
- Be aware of your own biases, we all have them. Try to fight them.
- Focus on the merits of the idea. Not where the idea originates.
- Awareness goes a long way, particularly self-awareness. This can often best be achieved by honestly asking questions of ourselves.

### Honest Questions

Am I looking at this issue from the proper angle? Am I letting a personal bias block me from finding a superior solution?

Is my attitude impeding my learning? By trying to look at this situation from another angle will I actually uncover a larger opportunity for growth?

Have I done all I can to see this challenge or situation from as many different perspectives as possible? Do I have all the pertinent facts?

Am I guilty of bias, particularly the kind of bias prevalent in making investment decisions, confirmation bias (seeking out only information that reinforces existing beliefs) and recency bias (extrapolating conclusions only from the most recent data)?

**Thinking Broadly Tempers Concerns**

Many national stock market pundits believe that stocks have pretty much run out of gas. Sentiments expressed center on the fact that stocks haven't risen much since January of 2018. Others say that stocks have risen significantly since March of 2009 and they are now over-valued. The seemingly endless negative chatter from some of these voices forecasting recession, bear markets and terminal political strife can be wearing at times. However, we think one of the best ways to handle it is to follow the marital advice Supreme Court Justice Ruth Bader Ginsburg received from her mother-in-law on her wedding day, "It

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helps sometimes to be a little bit deaf." One simply has to tune out some of the day-to-day

news and know that Americans have a way of ultimately working things out.

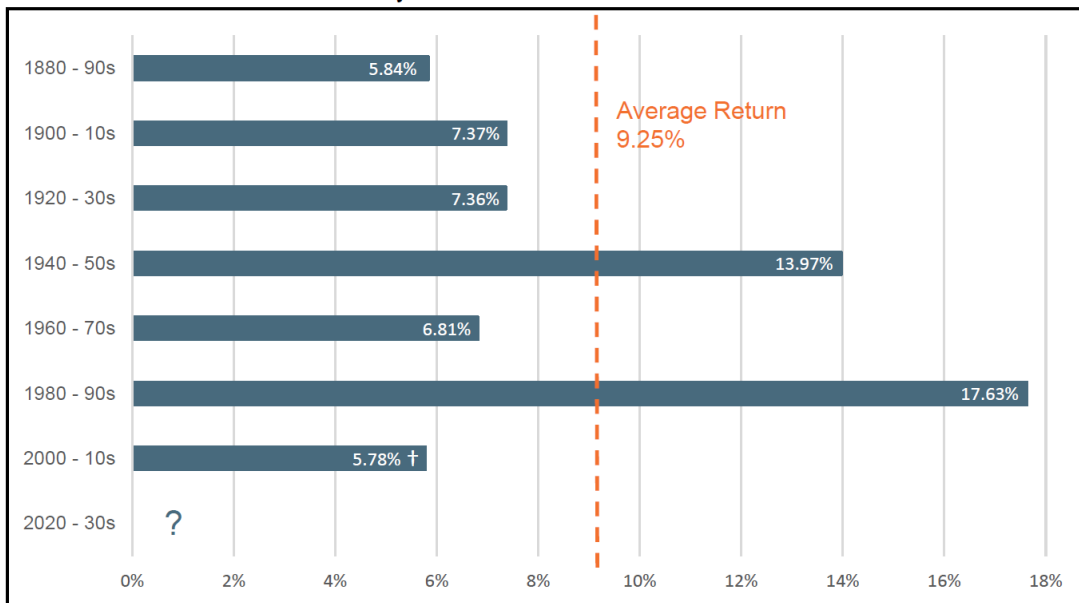
We feel it is important to address market concerns like these in a broader context. We try to focus on the facts and take a longer view. Taking a cue from General Scott, let's look at current stock market returns from another angle. Here are the facts. The last 20 years, stocks are barely outperforming bonds: 5.78% for the S&P 500 to 5.08% for

the Bloomberg Barclays U.S. Aggregate Bond Index. Typically, stocks outperform bonds by a larger margin over time. This narrow spread is unusual. As the historical chart below indicates, while positive, the last 20 years have been relatively poor for stocks. We do not believe this situation will repeat over the next 20 years. In our view, stocks remain an excellent way to align one's capital with American ingenuity, industriousness and economic growth. Stocks have been one of the greatest wealth compounding vehicles in the history of mankind and we do not see that being interrupted.

**The Next 20 Years?**

No one knows precisely what the next 20 years will bring in terms of stock market returns. However, we do have 140 years of history to help provide a sense of future possibilities. The graphic below illustrates the returns of the prior seven 20 year periods. The average annualized return of the seven time periods below is 9.25%. Even excluding the high value and the low value produces an average of 8.27%. The soon-to-be 20 year period we are concluding at the end of this quarter has been the worst on record. Only the 1880s and 1890s, with a combined number of 5.84%, compare to the 5.78% return we have witnessed since the end of 1999. Even so, this 5.78% return allowed an investor to triple their money over this time period.

U.S. Stock Market Total Returns\* by 20-Year Periods/Combined Decades



\*Annualized with Dividends Reinvested  
 † Data through September 30, 2019

Source: FCI Advisors, DQYDJ, Robert Shiller

## Don't Fear Stocks.....Pay Heed

What does all this mean for portfolios? Our conclusion is that stock market returns have been and will remain inconsistent. However, that is not a reason to fear stocks. We are believers in the concept of reversion to the mean, a powerful force in investing. Our thinking is the next 20 years will most likely produce a higher return for stocks than the last 20 years, closer to the average return above. Therefore, it does not make sense to be afraid of U.S. stocks, even after this 10 year period when stocks have compounded at 13.5%.

Finally, heed the advice and wisdom of General Scott and Justice Ginsburg. The General's advice can be applied not only to investments but most any area of your life. Look through the misperceptions or preconceived notions you

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may have, be aware of biases that may have crept into your thinking, and tune out the

unimportant that can unduly upset you. Choose to think more broadly and be a little bit deaf at times. No doubt, a tough assignment in many instances, but we believe taking these concerted actions will help us all, in investing and in life.



We also learned that General Scott's (left) high school basketball team competed against FCI co-founder Bryant Barnes' (right) high school team in the 1956 Missouri state basketball tournament.

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