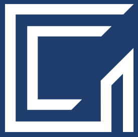

GFG CAPITAL
A FAMILY OFFICE

VIEWS FROM THE BRICK

HYPE MACHINE

Past performance is not indicative of future returns. You've read it on just about every piece of commentary or marketing material pertaining to an investment proposal. Maybe you didn't actually read it, but understood it was implied. It's text that's almost always in small type on the corner of the page just out of plain sight. So we're going to put it in all caps right here because this isn't something any investor should forget, especially in 2018.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RETURNS.

CONTEXT

Context is everything. In an industry that has a salesperson at every corner making his or her case for why they've got something for you to consider, Wall Street (or Brickell Avenue) can easily be confused for Canal Street on any given day. The hype machine never seems to take a day off around here. What so many of these salesman like to do is give you their pitch with data that supports their case, ignoring anything that might be able to be used to counter. We're here to advise you, their arsenal is about to get deceptively stronger.

Rewind 10 years from the start of 2018 and try to remember where we were. Need help? We were just 3 months into what would turn into one of the worst bear markets in history (~16% from the highs in 2007 at the end of January). At that point nobody knew there was an additional 50% drop coming from the lows of January before a bottom would be firmly set in. On the way down we don't think anybody wanted to hear a single thing about past performance of some strategy they'd missed out on until that point. If we were one of those salesmen you better believe we'd be telling ourselves now is a crucial window to be selling whatever it is in the playbook. Why? 2008's returns weren't on the books yet. The historical annualized returns wouldn't be using potentially disruptive inputs. For the last 10 years every investor has directed their attention to a strategy's performance during this time, for good reason. But something has been working on the side of the hype machine that can't be avoided.

SOURCE: This presentation is solely for informational purposes and should not be taken as investment advice. For further information, please contact one of our investment adviser representatives.

Time. Time waits for no (wo)man. Matthew McConaughey would even tell us it's a flat circle. By the end of 2018, trailing returns are going to begin to tell a story, which if investors aren't careful, could have an influence for the wrong reasons on investment decisions. Trailing ten year returns will no longer account for this historical period of turbulence. Curious to know what the difference will look like? The ten year annualized return on the S&P 500 currently is about 9.25%. Want to know what it looks like without that 2008 calendar year? The *nine* year annualized return currently stands at 16.5%[1]. Ignorance is bliss.

STAYING POWER

Historical context might be the most important context to take into consideration. Changing the time horizon for an investment when analyzing its returns could potentially paint a very different picture. You can take the same asset and build a compelling case on both sides just by toying with a few years or even months. Everyday is moot court in this industry. It will be important to remember where we're coming from in a few months when data begins to show a very favorable track record for many asset classes across the globe. If you were under-allocated to some of these segments of the market, don't allow for the hype machine to convince you the grass is greener. So before somebody tries to fleece you with an investment opportunity in the not so distant future, here is some food for thought on historical returns from S&P and Dow Jones Indices Research[2]:

- **2.85%:** Out of 631 domestic equity funds that were in the top quartile as of September 2014, only 2.85% managed to stay in the top quartile at the end of September 2016.

- **<1%:** Less than 1% of large-cap funds and no mid-cap or small-cap funds managed to remain in the top quartile at the end of the five-year measurement period.

- **82%:** On a one year basis, 56.56% of domestic large-cap funds underperformed the S&P 500. Stretch this time horizon out to the five years ending June 30, 2017 and this number balloons to 82.38%. This dangerous one year performance may influence an unassuming investor by way of recency bias.

Past performance is indicative of future returns.

SOURCE: [1]Performance data derived from Bloomberg. [2] Data derived from S&P & Dow Jones Indices Research. All performance as of December 30, 2016 unless otherwise noted. This presentation is solely for informational purposes and should not be taken as investment advice. For further information, please contact one of our investment adviser representatives.

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