SELECTOR
Real-Time Money Management

Monthly Commentary
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Beware of Bad Apples

"Good investors gather information, put that information into current and historical context, then make sound decisions."

In case you haven't been paying attention, financial markets are doing great. Domestic equities are hitting new highs. International equities are surging and emerging market equities are soaring. And perhaps best of all, bond markets are holding their own, so there is no handicap for being conservative or balanced. Unless of course, you are holding onto a bad apple. The old saying goes that a bad apple can spoil the whole barrel. Unfortunately, that can hold true for an investment portfolio that sits on a bad sector or a bad stock.

Thus far in 2017 we have only seen a couple of bad apple sectors, the most obvious being energy. The Dow Jones U.S. Select Oil Equipment & Services Index is down -25.85% YTD. The Dow Jones U.S. Select Oil Exploration & Production Index is down -15.50%. The broader Dow Jones U.S. Oil & Gas Index is down -12.23%. Contrast these numbers with the S&P 500 Index up +11.56%, the S&P MidCap 400 up +7.88%, and the S&P 600 SmallCap up +4.34%. Then to really salt the wound consider that the Dow Jones U.S. Technology Index is up +23.49% and the Dow Jones U.S. Health Care Index is up +18.00%.

Now it is a fact that the broad large cap index funds are all going to include energy stocks. The largest energy stock, and one of the world's largest companies by revenue and market capitalization, is Exxon Mobil. Other big names in the S&P 500 Index include Chevron, Schlumberger, Occidental Petroleum, and ConocoPhilips, but these five companies only account for about four percent of the index. In fact, as of May 31, 2017, the energy sector only accounted for 6.00% of the S&P 500 Index. In 2009 the energy sector was twice as big, and in 1980 the energy sector was the largest sector, constituting 25% of the S&P 500 Index.

The primary point here is that successful investing involves paying attention. If you fell asleep at the switch eight months ago when energy stocks were strong, you are having a very different investing experience in 2017, especially if you didn't latch onto the comeback in health care or emerging markets. Everything else being equal, that one big miss, that bad apple, is now sitting in your portfolio and you are faced with the follow-up decision of what to do next. Most opt to do nothing and wait it out, rather than acknowledging a mistake. Which is usually another mistake.

So how can you avoid the bad apples? I only know of two ways. Pay close attention. Or rely on a trusted professional who pays close attention. But why not both? We pay attention by analyzing charts. Those of you who take the time to come and sit at my round table know that the meeting isn't over until we have looked at the charts. Those pictures are better than a thousand words, even when the news isn't good. Of course, there are a large number of factors to consider when making suitable investment suggestions and managing portfolios. Every investor is different and deserves a unique understanding of how financial markets can affect them, both positively and negatively. But the best approach we know is to avoid bad apples.

The financial information universe is saturated with opinions. If you are going to be successful at investing, one of the first things that you need to do is learn how to filter opinions. It is very difficult to find a consistent source of information that is not permeated with opinions on what the data is telling us. The simple fact is that not one of the opinions you see on TV, or read on the internet, or listen to on the radio, is qualified and precise enough for your own, individual scenario. Only a trusted professional can make those distinctions and answer all of your questions. Now, most certainly, I am not saying that we don't have opinions. But our opinions are based on price action. This is an important distinction that, coupled with our decades of experience, helps us to avoid the bad apples that can spoil your investing experience.

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Sources: Bloomberg.com, Marketwatch.com, StockCharts.com, Blackrock.com