THE FERRUCCI COMPANY

balance

APRIL 2016

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Written by David Ferrucci

We speak regularly about Rules #1 and #2 of investing: *diversification* and *discipline.* For many good reasons, both garner a lot of attention. Rule #1 can be critical to the success of a portfolio – actually, all of personal finance – and we are unapologetically repetitive with our use of its synonym, *balance*. Even the title of this monthly feature is named for our favorite word! With regard to Rule #2, Paul wrote of this topic in last month's edition of MARKETLIGHT, summing up the principle of discipline with the words, "Stay the course!"

Much less is written about a third – though key – rule of investing. Yet, with April 15th approaching, this is a good time to highlight the importance of Rule #3: *efficiency*. To be efficient means to, "Achieve maximum productivity with minimum wasted effort or expense." Within the realm of portfolio management, there are two parts to Rule #3, both centered on the elimination of "wasted expense".

First, we seek tax efficiency. Returning to Rule #1 for a moment, technological advances have made it easier for investors to diversify a portfolio among asset classes such as stocks, bonds, and cash. However, many investors are unaware of a portfolio's potential dividend and interest income, as well as capital gains. Such naiveté may lead to unnecessary tax costs that could seriously thwart a portfolio's progress; and that, ultimately, leaves many investors unpleasantly surprised when April 15th rolls around!

ef-fi-cien-cy

/əˈfiSHənsē/

noun

Achieve maximum productivity with minimum wasted effort or expense.

The second part of Rule #3 focuses on *platform* efficiency. Whether investors choose to manage portfolios on their own or hire an advisor, management fees and trading costs accompany each platform. The average cost for a managed investment portfolio is close to 3% per year; inclusive of trading costs, fund expenses, and advisory fees (our average total cost is approximately 1%). Like taxes, high platform costs can substantially slow the progress of a portfolio.

When structuring a balanced portfolio (Rule #1) and staying the course through bumpy markets (Rule #2), we also look to reduce any "wasted expenses" (Rule #3). Only when strict attention is paid to all three rules, concurrently and continuously, can your portfolio potentially maximize its opportunity for success. As Paul pledged in our February issue of ***balance***, "We will continue to follow the rules above." That's what we do really well!

MARKETLIGHT

Written by Paul Ferrucci

March was a strong month in the equity markets.

I was tempted to end this article with that simple statement, but March has presented an opportunity to highlight a valuable – and consistent – lesson. If I were a classroom teacher, I might begin with the following prompt, "Class, what have we re-learned so far this year?"

Looking back, the S&P 500 was down approximately 11% through the middle of February. Yet, over the past six weeks, stock values have risen nicely; through March 31st, the S&P 500 was up 1.2% for the year. Also, with regard to the fixed income markets, the Barclays U.S. Aggregate Bond Index had advanced 2.8% through March 31st. So, the lesson our financial markets continue to teach us: "Stay the course!"

As is usually the case, the market surge has been triggered by many features of the economy. For starters, an increase in the per-barrel price of oil over the month of March has been viewed as stabilizing, and, therefore, positive. Also, the continued strength of the U.S. dollar has been a prevailing theme. Tied to the dollar's strength, the Fed have refrained from raising the interest rate since last doing so in December. Many economists expect the Fed to continue their cautious stance for the rest of 2016, keeping interest rates relatively low.

Also, one of the most important economic indicators is Gross Domestic Product (GDP). If you don't recall everything from *Economics 101*, GDP is the monetary value of all finished goods and services produced in the U.S. during a calendar year. Late last month, the Bureau of Economic Analysis revised 2015's fourth quarter GDP to 2.0%; up from 0.7%! Another economic data point is the ISM Manufacturing Index. In March, this gauge of the manufacturing sector rose from 49.5 to 51.8; any number above 50 indicates growth. Lastly, the Bureau of Labor Statistics reported on April 1st that unemployment was at 5.0%; historically, a level at which most economists and policymakers are comfortable.

Moving abroad for a moment, global stock markets also posted positive returns in March. However, the Dow Jones World ex-U.S. Index remains in negative territory for the year, down 2.8% through March 31st. Playing the role of teacher once again: "Class, what lesson have we re-learned?" The answer is *diversification*, Rule #1.

I am naturally inclined to follow Rule #1 with Rule #2. Returning to the start of this article, the first quarter of 2016 has reinforced a valuable lesson with regard to the latter, *discipline*. Looking ahead, various economic bureaus and research entities will continue publishing their findings on our economy. Regardless of how the financial markets behave – up, down, or flat – our rules of investing will continue to be reinforced.

The Ferrucci Company is a wealth management boutique where families turn for financial guidance and leadership, freeing them to pursue their most important goals and values.

David Ferrucci: Over twenty-five years ago, David began helping individuals, couples, and families make balanced – and smart! – financial decisions. Earning Bachelor's and Master's degrees from Trinity College, he focused his studies within the field of behavioral finance; an academic discipline that factors human elements into traditional economic assumptions. David also earned a Master's degree from Columbia University, where he examined the complex relationship between personal finance and family dynamics. Currently, he is pursuing a Master of Philosophy degree through Wesleyan University, deepening his understanding of personal, family, community, and global matters as they relate to finances. Today, David's expertise lies in the macro-economic realm of coordinating, synchronizing, and advancing individual and family goals.

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balance is a monthly feature written by Paul and David Ferrucci, and presented by The Ferrucci Company for the education and enjoyment of others.

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