

Chasing the Puck September 2020

“Skate to where the puck is going, not to where it has been.” – Wayne Gretzy

Investing is a constantly moving thing. Yesterday’s news is forgotten fast. What was important then is now quickly removed from the front page. Guessing the next big thing is a draw for many people and the news companies know that. Everyone seems to be in a hurry to get somewhere quickly.

The Gretzy quote is often used in many professions. From boardrooms to locker rooms, people are incentivized to anticipate their competitors’ next move. The quote can be a helpful reminder that the past is not necessarily the best predictor of the future. Changes must be continually reviewed or you risk being left behind. Most people can understand that some amount of focus should be on where things are going; however, the quote can also be misleading. The challenge might not be knowing you need to look into the future, but knowing how far to look.

For instance, someone might say they want to know where the puck is going to be in two months. Another person might say they want to know where it will be in 20 years. Those are completely different games.

Combining short duration games with today’s news turnover gives you the perfect recipe for frantic investing. If that’s the game someone is playing, then panicking about everyday market movement is necessary. Inevitably, the game quickly starts to resemble another ice sport, short track speed skating. This is an entertaining Olympic sport to view because of the intense action and quick results where winners and losers are determined by fractions of seconds. No doubt fun to watch, but not exactly the ideal picture of successful long-term investing.

Compare this strategy with someone that is chasing the 20-year puck. They are not worried about the daily news cycle. They look up from time to time to see how the race is going, but with a different mindset. If prices have gotten depressed from the long-term path, they might buy a little. If prices have gotten farther ahead than the long-term path, they might sell a little. Their view of the market coincides with what puck they are chasing.

Market movement

A few large companies continue to lead the overall stock market gains. This is nothing new. Most years this is the case and 2020 is no exception.

The investors that are in a hurry attempt to find those few companies every day, week, and month. The puck they are chasing is just a little outside their reach. If they can continue to guess correctly, they can access wealth quickly. If they choose poorly, their wealth can disappear quickly. (An aside for another newsletter, but then at what point is wealth gained “enough” and does then the strategy change?).

The investors with 20-year horizon are looking to compound over time. They realize that to grow they need to be invested in those few big winners. They ensure this is the case by diversifying.

At this point, some investors would try to be sneaky and say just buy the top 10 companies and that should be good enough. However, this is usually not the case. Adjustments need to be made along the way as the economy, industries, and companies change. The few big winners are probably lying outside of the current top 10. As an example, I looked at the top 10 Vanguard Large Cap Index Fund holdings a decade ago versus last quarter end.

Here are the top 10 holdings in Vanguard Large Index Fund on June 30, 2010[1].

Company	% of Total Assets
Exxon Mobil	2.9%
Apple	2.3%
Microsoft	1.8%
Procter & Gamble	1.7%
Johnson & Johnson	1.6%
IBM	1.6%
General Electric	1.5%
JP Morgan Chase	1.4%
Bank of America	1.4%
AT&T	1.4%

Here are the top 10 holdings in Vanguard Large Cap Index Fund on June 30, 2020[2]

Company	% of Total Assets
Microsoft	5.8%
Apple	5.3%
Amazon	4.4%
Alphabet	3.1%

Facebook	2.1%
Johnson & Johnson	1.4%
Berkshire Hathaway	1.3%
Visa	1.2%
Procter & Gamble	1.1%
UnitedHealthGroup Inc	1.1%

As you can see, much has changed in just 10 years. 60% of the original group has been replaced. Investors either holding onto only the largest companies in 2010 or investors trying to pick the next big thing potentially may have missed out. Those taking a diversified approach and just holding Vanguard Large Cap Index fund for the ten-year period would have seen their holdings change. They would have participated in the rise of these few big winners. As the economy, industries, and companies changed, so did their investments.

Every once in a while, it is helpful to remind ourselves which game we are playing and what puck we are chasing. Wayne is right. Investors need to know where the market is going, not where it has been. They also need to resist the temptation to chase someone else's puck.

Office Update

We hope all is well with you and your families and that you are healthy. We are grateful to be working with clients like you during times like this and we are here to help wherever we can. Please do not hesitate to contact your advisor with your questions you may have or if you just want to talk.

During this time of crisis, like many businesses, we decided early on to work from home, utilizing videoconferencing, email and phone to connect with you, our clients. While our office has been closed, we had also decided to use this time wisely to expand and renovate the office. We expect to be able to move back into the refreshed office early October and very much look forward to seeing you in-person again.

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[1] Per Vanguard SEC Filing. <https://www.sec.gov/Archives/edgar/data/0000036405/000093247110002746/indexfundsfinal.htm>

[2] Per SEC Filing. <https://www.sec.gov/Archives/edgar/data/0000036405/000110465920100524/tm2026383d1-ncsrs.htm>