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OBSERVATIONS ON THE MARKET No. 358*By Greg Denewiler, CFA*

Investing is a multifaceted endeavor. You are constantly fighting an emotional tug-of-war. In this era, everyone is challenged. When prices make astronomical moves up, we still want to buy. Then there is the urge to be right, the urge to prove you are smart, the illusion that all the information you now have access to makes you a superior investor. Behavior economists have names for all these traits, and they all detract from our ability to be successful long-term. If this is not enough, we now have social media which can move markets. Look no farther than Game Stop for proof of this new phenomenon. It is the allure of easy money encouraged by apps on your phone that turn investing into a game. Chat rooms have now created a crowd mentality that appears to have changed the game. Have they really? The Securities and Exchange Commission was created in 1934 to combat the manipulation of stock prices that was occurring regularly through the 1920's. Chat rooms may not be illegal; however, the story usually has the same ending. One big problem is that no one has any accountability for anything. Then finally, it sort of feels like politics and Central Bankers are just playing a game, because everyone knows that what they are doing is not sustainable long-term. (Last month's reference to the Fed being criminals was probably a little strong but was just a point that with zero interest rates they are sort of stealing money from us.) The world we presently live in appears to be testing almost everyone.

A few weeks ago, I reached out to a guy who was the father of a kid who played baseball with my son several years ago. He currently owns 3,700 apartments and has a net worth with eight zeros behind the first number. The conversation eventually turned to the markets and to the question; what do you do now? He mentioned that he is refinancing all his properties at these low interest rates but does not know where to invest new money. He has little interest in buying more apartments even with interest rates so low because the price of an apartment building is so expensive. The problem is the same for everyone. It seems to be a human condition, even for those who least need to do anything, we want to be doing some-

thing.

The *Wall Street Journal* had an article today about three guys who were trading on the Robinhood app. One of the fascinating parts of the story was the expectations that they had for their portfolio returns. They all started with less than \$10,000 and had immediate success. If it took longer than a few months to double their money, they equated that to a slow market. Their main concern seemed to be what color they would all choose for their Lamborghini's. When the market compounds money at 7% to 10% long-term, anything more than that becomes exponentially harder. The market shows no mercy when it teaches you that a higher return equals even higher risk. One point to always remember is that if you expect to double your expected return above the market's long-term rate, your risk goes up by more than double. These stories always seem to end the same, the investor seems totally shocked when they find out the market is somewhat efficient. The scenario is basic financial theory, the problem seems to be that people do not want to believe it.

You can make money with several different investment strategies; however, you better understand what it means to have higher expectations embedded in the prices that you are paying. The market will eventually remind you at some point. With interest rates at .1% for short-term Treasuries and CD's, it is especially hard to not do anything. Yes, the government can continue to borrow money at less than 1% with little consequence, but someday we will either return to normal with higher rates, or experience higher rates because investors will no longer loan money at such rates if they question whether they will be paid back. Either case, you will really wish you were in high quality investments. In the interim, the chat rooms and the game of it all carries on. Since the underlying theme of this letter is Growing Dividends from Blue Chip America, sustainable dividend growth has a component of high quality built into it. When it is hard to find a reasonable price for something, you just must wait for the market to put its assets on sale.