Summer is officially here and we hope everyone is able to enjoy it…short as it is. Sometimes I think the only thing that seems shorter than summer in Wisconsin is the time it takes for the market to reverse itself and trade in a completely different direction from day to day for little or no obvious reason. In the middle of June this risk-on and risk-off mentality was readily apparent in the interpretation of whether Britain would vote to leave the EU. Markets rally upward on the heels of a poll indicating the vote would favor staying only to be followed closely by markets moving down based on a different poll. Back and forth, in and out. Honestly, who is trading on these type of data points? Does it make sense to speculate hard earned assets on the outcome of a vote that is impossible to forecast? One may well as save time and angst and simply bet on a coin flip.

Of course, after the vote the networks were full of talking heads discussing how they had seen this coming and had, much like a master chess player, positioned client assets in a manner to benefit from the outcome. These folks are now heralded as nothing short of market geniuses. New clients come to them hoping to take advantage of the keen insight that led them to make money on this particular event. It kind of reminds me of a story I once heard of a gambler that would bet on anything, even something as obscure as which fencepost a bird would land on first. If he were on Wall Street he would say that he researched the weather, the wind patterns, the types of birds in the area, and then invested in a certain fencepost.

I guess you can see our view here. We believe that putting capital at risk on such uncertain, binary events is not prudent. The outcome seems to outweigh the process in the minds of many when just the opposite should be the case. Some of you may recall previous notes when we have written on this topic. If you were to place a wager on the flip of a coin and win, was it a good bet? Maybe, if the bet was made with assets you are perfectly comfortable losing in the event of a poor outcome, but for most clients the assets invested in the market are not categorized as such. A 50% chance of a 100% gain verses a 50% chance of a 100% loss is not a risk/reward ratio we feel compelled to participate in.

This idea of placing more emphasis on outcome than on process leads us to another approach to the markets that seems to be gaining in acceptance, those that buy or sell based on computer algorithms looking for stocks that are trending one way or another. It is irrelevant what the company is, if they make money or not, if they are solvent or not…all that matters is the general direction of the recent trades. Hoping to catch a free ride, these programs will buy or sell regardless of fundamental considerations. The idea of researching companies to find those that seem to be good investments based on their share price relative to things like earnings, cash flow, sales, and so forth seems out dated in this return chasing, outcome based environment.

Despite that, here at The Riverwood Group we prefer the concept of investing to that of speculating. Over time even the shrewdest (luckiest) fence-post/bird landing analyst will find that there are too many birds and too many fence posts to be successful at investing in such random events. The outcome of an investment or a bet is measurable, so it is easy to understand why it is often used as the gauge used to determine success or failure. The process used to make the investment in the first place is harder to measure, but if a good process is repeated time and time again it should begin to help reduce the element of luck and over time provide for more stable and predictable outcomes. We believe we have such a process.

As always, thanks for your time and for your trust. Please call us anytime.
Thank You to Katherine McCombe

After 24 years as a Financial Advisor, The Riverwood Group at Morgan Stanley said good-bye to our partner and friend Katherine McCombe on Thursday, June 30th, 2016. We will miss Kathy’s dedication to her clients, exemplary customer service and the experience and knowledge she developed over the course of her successful career. She has worked extremely hard to ensure our clients and their families wealth management plans were organized to help ensure their ultimate goals were achieved. We are happy for her and hope she enjoys a fantastic retirement.

We have learned a lot from Kathy as we have worked together over the years. Our goal going forward is to continue to incorporate what made her a successful advisor and such a valued member of our team, even after she retires. The team will strive to make this transition as seamless as possible for all of our clients.

Thank you for your business and continued trust.

Mark, Sara and Jeff

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We truly value our relationship and hope we can use this new communication medium to further develop it.

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