Pittenger & Anderson, Inc.
REGISTERED INVESTMENT ADVISOR

P&A's Quarterly Letter

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Cashology Revisited

Dear Friends and Clients,

Our 3rd quarter letter in 2012 introduced the term cashology and we told our clients to expect to hear about it again. At that time, we loved equities, disliked bonds, and reminded you the long term is the only term. We'll start this letter with a brief refresher:

Cashology (kash-ology)
- The study of; and things pertaining to money
- The art of earning, investing and hanging onto money
- How to avoid being fleeced or cheated out of money

Principles of Cashology
- Money has no value until you use it.
- Most of us will have more money in the end if we spend a little as we go.
- Liquidity makes a difference. Money will get you through times of no success better than success will get you through times of no money.
- Think of yourself as a bank. Be the bank.
- If you don't make money decisions well, hire someone who does.
- Appreciated securities (stocks and bonds) are cash equivalents, but cash is not an appreciated security.
- "Timing" the market doesn't work. "Time in" the market does.
- Hit for singles and doubles. Don't swing for home runs.
- If you do something, you will have something. If you do nothing you will have nothing.
- Finish what you start. Most people don't.
- Risk is a relative thing. Successful investing reduces the fear of risk in an asset class; it does not eliminate risk.
- Loans to family members are gifts.
- Asset classes generate different returns for different reasons, most of which are related to risk.
- You can spend interest, dividends, and capital gains. They are all just money.
- A plan means nothing without execution. You can't properly execute without an effective plan.

Long-term readers know that cashologists understand three undeniable portfolio forces: compounding, diversification, and the Rule of 72. Liken these to forces of nature such as gravity, electromagnetism, centrifugal, atmospheric pressure, vacuums, etc. They all exist and influence our lives but none is tangible. Before this letter concludes, we will have added a fourth force to the cashologist list. It has existed with positive impact for the last 50 years. Like the other three, singling it out will allow investors to use it as a tool.

Phobias and philias…

Phobia is the ancient Greek word for fear. A decent phobia will bring you to your knees, shorten your breath, and introduce paralysis. Mental Health America tells us there are over 3 million known phobias. Philia is the ancient Greek word for affection or love. An antonym is a word of opposite meaning…rich/poor, full/empty….you get it. The way I see it, the Greeks liked compound words. Arachnophobia is the fear of spiders while arachnophilia is a love of spiders. We have every reason to believe there were plenty of spiders around in ancient Greece so it is probable that these two terms could date from the same era.

When you change eras, it is common for the root word to change. Aerophobia is a fear of flying while aviophilia or aviatophilia are the commonest philias we can find describing a love of flying. It's just conjecture on our part, but we assume that phobias tend to be coined prior to their antonym philias. You probably don't need an airplane to fear flying (which was no doubt involuntary), while you would need at least a hot air balloon to develop any kind of love affair with flying.

In other words, the Greeks--for that matter most societies--generally found a colloquial need for the negative case before the positive case. Look around and it's easy to see that negatives draw more attention than positives. People watch stock car races to see wrecks, not victories. Politicians publicly dice each other up for press recognition while reserving compliments for donors at fundraisers. Wall Street's "breaking news" is more apt to be negative than positive. Awards and triumph appear at the end of the newscast, which generally opens with a natural disaster or a war story.

Phobias tend to be resolved a bit quicker than philias. More often than not they just yield the floor to new phobias; that's part of the process. Up jumps a dragon, slain by a white knight; enter a zombie felled by a silver bullet; now comes Jaws dispatched by Brody…..and so on and so on. This theater will usually be negative and virtually perpetual. In spite of the death by a thousand cuts that we all have become used to, the long-term direction of the market tends to be positive. Perhaps we should keep an eye on the horizon, not the hood ornament.

As we mentioned earlier, compounding, diversification and the Rule of 72 are undeniable market forces. While they are tools to validate the pitch, gradient, or slope of the market, the mere knowledge of their existence is enough to keep most cashologists from doing something stupid. Today we will enlighten you on a fourth undeniable market force; it will fit into the same toolbox…Moore's Law.

Let's get positive…

Gordon Earle Moore is the Chairman Emeritus of Intel Corporation. He is 89 years old and have up Silicon Valley in favor of Hawaii. Mr. Moore is extremely philanthropic, has a net worth of $9 billion, and loves to fish (keep your line tight Gordon). The guy holds every technical recognition possible south of Nobel. In 1965, he blessed us with Moore's Law. Gordon was then working at Fairchild Semiconductor and sat for an interview with Electronics Magazine. Asked to predict the future of the components industry, he reflected on trends already in place: "The number of transistors per square inch on an integrated circuit will double every two years." Logically enough, that means that computing power would double every two years.

Moore's Law has delivered in spades. According to Intel CEO Brian Krzanich, "Moore's Law set an expectation that Intel has fulfilled—and then some. Since our first microprocessor was delivered in 1971, Intel's chips have increased 3,500 times in performance, 60,000 times in clock speed and more than

90,000 times in terms of energy efficiency. If a 1971 Volkswagen Beetle had advanced at the same pace, it would be able to drive at speeds up to 300,000 miles per hour, get 2 million miles per gallon, and cost about 4 cents."

Gordon Moore is well known but not flashy. He verbalized his "law" over 50 years ago and pundits have been betting against it ever since…people do that. Another way to interpret what is going on is "technology begets technology." Since you make computers with computers, a faster computer allows you to build a still faster computer.

In order to gain from this concept we don't have to invest 100% of our dollars in tech, but should keep an eye on those industries that are prodigious users of technology. Put another way, "Why mine for gold when you can sell pickaxes to the miners?" Moore's Law describes more than a trend. We liken it to a four lane replacing a gravel road. The key takeaway here is investors need to be long the market. Let's back up to the late '60s and make a short, non-inclusive list of the investment opportunities missed by not owning equities:

World Wide Web	Online Shopping	MP3 Players	Bluetooth
WiFi	Video Games	DVDs	Minivans
Personal Computers	Word Processing	Search Engines	Cloud Computing
CRM Programs	Hybrid Cars	Social Media	Space Travel
Discount Brokers	Robotics	Drones	Home Video
Retailing	Human Genome	Smart Phones	Driverless Cars
Digital Cameras	GPS	Flash Memory	Electric Cars
Streaming Video/Music	Electric Cars	Banking	Photography
Stereo	Surround Sound	Flat Screen TV	ATMs
iPod	Artificial Heart	Post-It Notes	Apps

Pretty impressive group, isn't it? Patience and staying the course would have enabled the owner of a diversified stock portfolio to get in the way of a fair number of success stories generated by this list. Do you want a list of the opportunities you will miss by not owning equities in the future? Most of the above will be on that list, with a number of new additions. Here are a couple of trends we expect to continue:

- Music - My history goes like this: 45rpm, 33.3rpm, reel-to-reel, cassette, CD, MP3, downloads, streaming…what's next? Perhaps omnibus cloud publishing will ultimately take advantage of regional then worldwide Bluetooth or WiFi.

- Transportation - Drivers are slowly but surely going the way of the buggy whip; LiDAR or its successor becomes a household word.

- Medicine - The communication-stifling parts of HIPAA will go the way of the dodo bird. The price of pharmaceuticals will continue to drop precipitously and miniaturization will profoundly enable non-invasive surgery.

Knowing Moore’s Law reveals a tail wind available to all investors.   When combined with compounding, diversification and the Rule of 72, it describes an equity market that is consistently going to be worth “Moore,” not less. I hope to live a long time because the day after tomorrow is always going to be pretty cool.

We are sad to report on the demise of the DOL Fiduciary Rule…

In the financial advisory world, there are two standards of care. The fiduciary standard is a duty of loyalty, legally requiring an advisor or firm to put the client’s best interests first. The suitability standard requires a stockbroker to recommend only suitable investments given a client’s financial situation, even if better or lower cost investments are available. Loyalty is an important term in this distinction and used to underscore the fact that a fiduciary advisor works for the client while and the stockbroker’s first duty is to the firm that signs his or her paycheck.

Prior to June 30, 1995, Dan and I were stockbrokers, paid to sell our clients products. On this date, we formed our new company as a Registered Investment Advisor (RIA) and became subject to SEC rules. This meant we were held to a fiduciary standard of care and no longer paid to sell products. Transparency ensued and the conflicts of interest inherent in a transactional business model went away.

We embrace the fiduciary standard; it allows us to enter into a contract with our clients and accept their discretion to manage multiple accounts in their best interests. The suitability standard does not require a contract and broker-dealers typically will not allow their employees to manage with discretion using this standard.

The late ‘90s and into the early 2000s the market was all about IPOs and dot-com stocks. That hit the wall in ‘01 and a correction ensued. The inmates didn’t start running the asylum again until 2006 or so….just in time for the mortgage bubble and the Great Recession. The market bottomed in 2009, lacking a lot of trust and confidence. Brokerage firm CEOs surveyed the situation and decided to start using the adjective “advisor” to describe their in-house felons. These financial “advisors” still earned comp by selling products. Since the fiduciary standard was too clumsy for this bunch to work with, they decided to stick with suitability.

Who was this going to hurt? It would be no different from a pharmaceutical rep calling herself a doctor or a law school dropout calling himself an attorney…all they had to do was sleep at a Holiday Inn Express last night. Unlike the AMA or state bar associations, the SEC and FINRA have not felt any need to protect the investing public from practitioners that blur these lines.   The Financial Planning Association cried foul and the Department of Labor led the regulatory charge.

The DoL undertook a multi-year project that addressed the conflicts of interest imbedded in the financial advisory industry. This resulted in the DoL Fiduciary Rule, published in April 2016. Unfortunately, it only applied to retirement accounts, not after-tax investment accounts. Because of the dislocation it created for broker-dealers and insurance companies, the rule was not supposed to become enforceable until one year later in April 2017. We didn’t think the DoL rule went far enough to protect investors, but it was a start and an effort to differentiate RIAs from all the transactional wanna-bees.

Nearly 20 years ago, we decided to reduce our mutual fund management fee from 1% to 0.75%. Those accounts were subject to internal fund expenses and tended to be smaller. The new DoL rule considered our fee schedule for retirement accounts to be “tiered” and one resolution was to reduce our 1% stock and bond fees on retirement accounts to match the 0.75% mutual fund fees. We were told this is what the DoL would consider a flat fee schedule. Therefore, we bit the bullet and made the change to our pricing. It cost us a fair amount of money and no one likes the government telling you how to run your business. We were compliant with the new DoL rule in April 2016 and were soon to find out that no good turn goes unpunished.

On February 3, 2017, 10 months after publish date and two months before effective date, President Trump signed a memorandum directing the DoL to re-examine the Fiduciary Rule. Now it looks like the DoL rule is all but dead. In all likelihood, and in its place, there will be a watered down Best Interests Rule implemented by the SEC. This would gently recommend advisors to place their clients’ interests first, while largely allowing the status quo to continue. Caveat emptor.

Maybe we should be happy that we can continue to compete against the broker-dealer zombie rodeo, which regulators appear to believe is actually staged by non-conflicted financial advisors. We are saddened by these events and do not see the current administration recognizing these conflicts of interest as a problem any time in the near future.

The World According to Pitt and Dan….

Company earnings have been strong and the economy is getting a boost from the tax cuts and government spending. Trade wars and tariffs aside, we still like stocks. Since long term is the only term, we’d do what Bing Crosby sang about and “Ac-Cent-Tchu-Ate The Positive.” Great song! Everyone should go around muttering it.

On behalf of the P&A team,

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