# The Meridian Memo

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## *If You Don't Do Macro, Macro Will Do You*

### We Have to Look at the Big Picture

If I had a dollar for every time somebody asked me 'what is good stock to buy,' well, I would have a lot of dollars in my pocket. The truth is, on the whole, the market prices individual securities very efficiently and trying to make money by either betting on or against individual securities is more often than not a fool's errand. When I say pricing efficiently, I don't mean pricing accurately, but I mean pricing in such a way that neither humans nor machines know if the next move(s) for that security is up or down. That is why academics say the path prices take is a "random walk." I felt really compelled to write this piece because it is something I run into on a regular basis and if not addressed, has the potential to harm investors.

This is especially the case when someone is looking to purchase stocks when the market is moving downwards.

If we are focusing on stocks in the US equities market or major developed equities markets, as most people do when discussing stocks at cocktail parties or during ballgames, we **first** need to concern ourselves with what those major markets (i.e. the "macro") are doing.

If we believe those markets as a whole are moving downwards, are in a bearish trend, and have broken down, there is no way I want to be a buyer of individual "value" stocks in an attempt to beat the market. This is scary, dangerous, and even foolish.

> *"If we believe those markets as a whole are moving downwards, are in a bearish trend, and have broken down there is no way I want to be a buyer of individual stocks in that market in an attempt to "beat" the market."*

Against consensus, we told clients 2 macro themes going back to Q1 of 2018 on which we were right. a) We thought the US equity market in 2018 was breaking down. b) We thought interest rates (not fed funds) would stop climbing in Q4 of 2018.

## *Company Communique*

### Thoughts as We Enter the New Year!

One of the reasons why we focus on ETFs (funds) rather than individual stocks is that it eliminates what is called "idiosyncratic" or company specific (diversifiable) risk, which is unnecessary and for which the market does not compensate investors.

The only exceptions we have to investing against the prevailing macro headwinds are (1) when we are transferring assets that are already invested from one account into another account.  In this situation, we are not deploying new capital. The other exception is (2) when we are doing it as part of a pre-planned systematic program which may include dollar cost averaging (DCA). DCA could be used when deploying new capital.

My brother and I talk about this a lot. There are some great books on this subject. Reach out to me if you are interested in some titles.

## *3 Growing Risks Facing Retirees 75 and Older*

The Center for Retirement Research outlines key risks that advisors with older clients should consider.

The number of Americans 75 years old and over is projected to more than double by 2040. As these numbers increase, so do the late life financial risks for these individuals for which they may be unprepared.

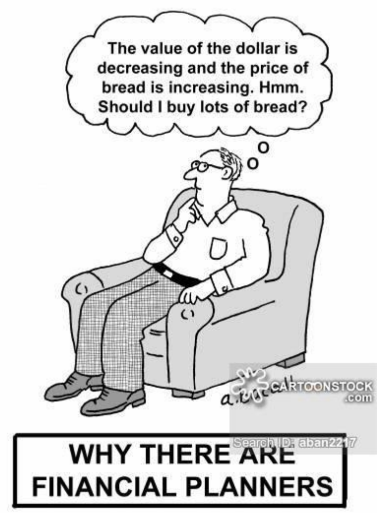
The center for retirement research at Boston College (CRR) put many of these risks into 3 different buckets: "high out of pocket medical expenses; an increased possibility of financial mistakes due to declining cognitive abilities; and the specter of widowhood."

1) *High out of pocket medical expenses*
Even with Medicare, out of pocket costs can still be substantial for elderly households even prior to Long Term Care. Besides paying premiums for parts B and D and any supplemental coverage, co-pays and deductibles, they may have to face the full cost of many services not covered by Medicare including dental and vision. Total out of pocket costs amounted to 20% of the 75+ group's total income said a recent study.

2) *Declining cognition and money management*
Due to declining cognition, seniors 75 years old and over are likely to be more susceptible to fraud and making routine financial mistakes.  Those in this group who get no help are more likely to face severe hardships such as difficulty paying for food, housing, and medical bills.  The takeaway here is having some sort of assistance be it from any trustworthy family member or financial professional is more important than ever.

3) *Risk of Widowhood*
One positive is that between 1994 to 2014 there was a 13% decrease in poverty for widows because of women's increasing labor force participation and education.  However, even though widowhood doesn't usually result in poverty, which is an extreme measure of financial stress, it often reduces the widow's standard of living in retirement.  This is due partially to the way social security benefits are designed with a widow entitled to the larger of her own benefit or her husband's.

The CRR says the silver lining regarding these challenges is that they can be prepared for as they are known in advance. Whether this is done by the individual or in tandem with a financial advisor, it is prudent that steps are taken proactively.

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