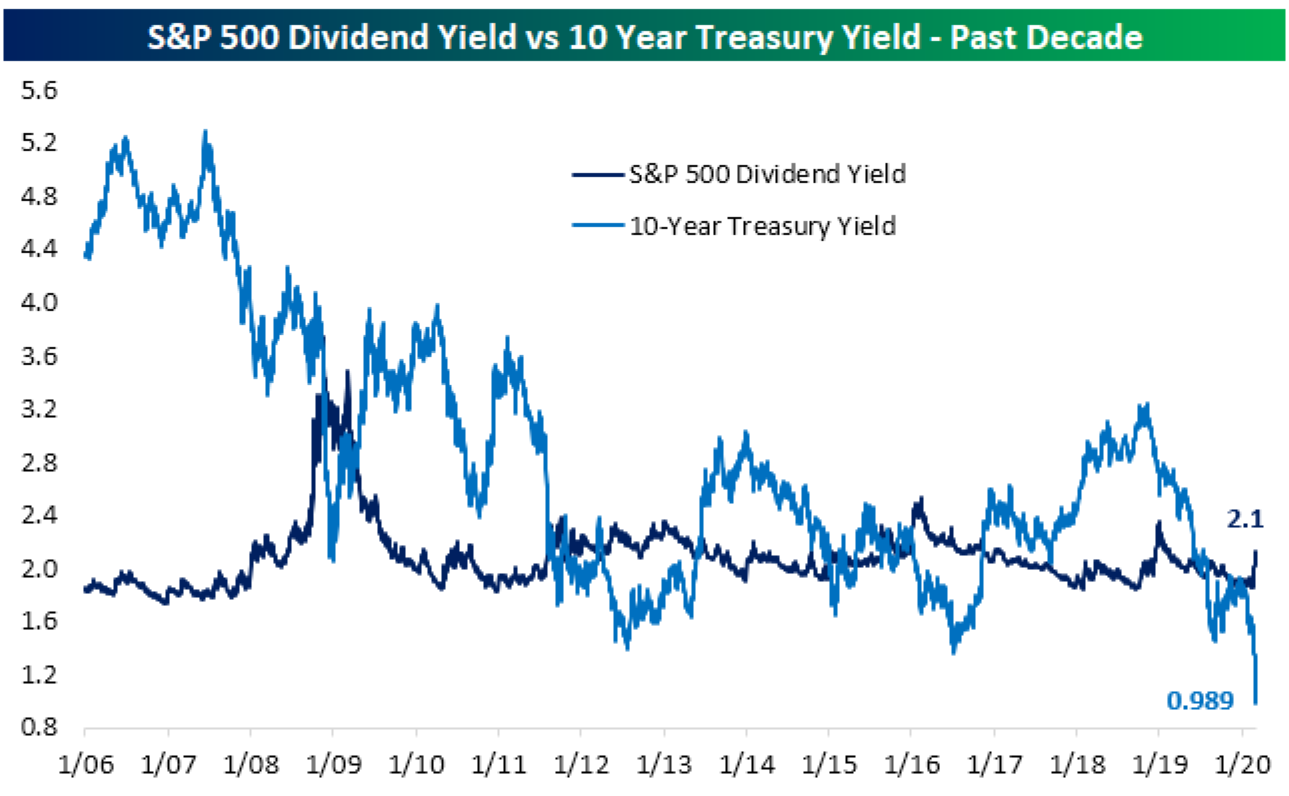
February 2020

The Fed's emergency interest rate cut of 50 basis points today sent the 10-Year Treasury yield below 1% for first time in history. Stocks initially rallied, before heading sharply lower, with the NASDAQ closing down 3%, the Dow 2.9%, the S&P 500 2.8%, and the Russell 2000 2.3. From Bespoke:

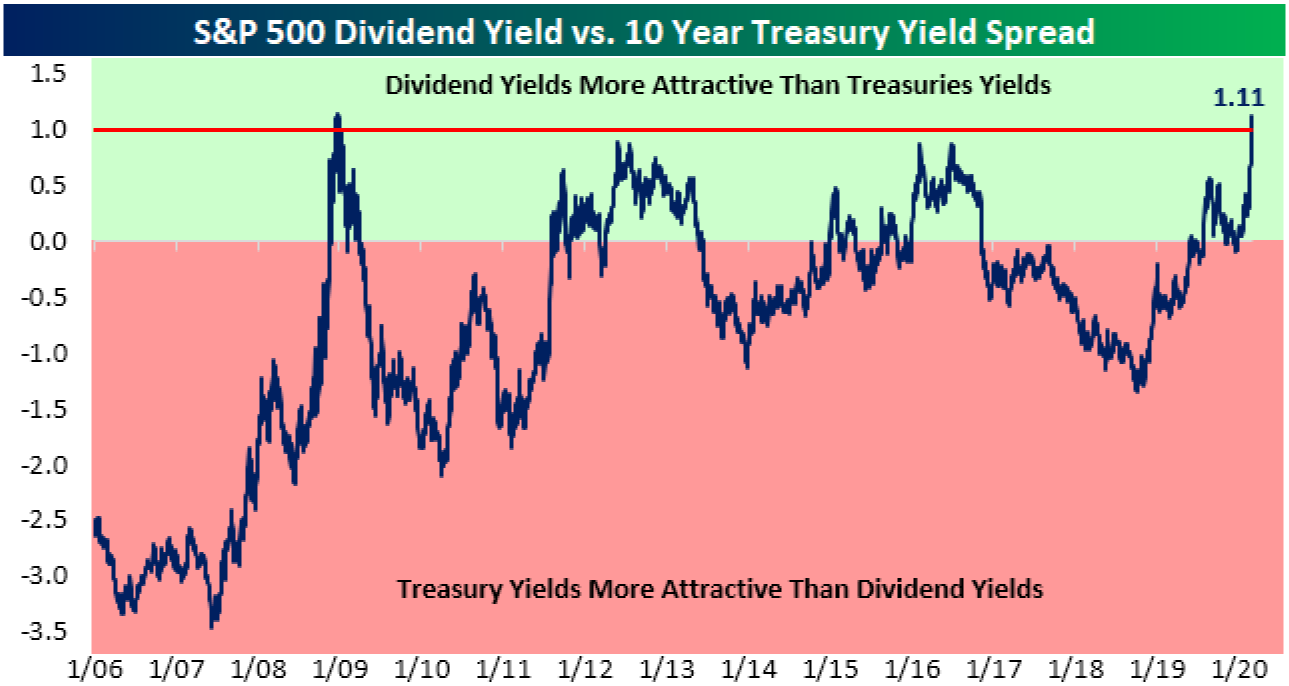
S&P 500 Dividend Yield Now 100+ Basis Points Higher Than 10-Year Treasury Yield

Tue, Mar 3, 2020

The yield on the 10-Year Treasury tipped below 1% today for the first time ever as the Fed cut rates by 50 bps. That is a record low yield for the 10 Year. Meanwhile, the past few days have seen the S&P 500's dividend yield rise to some of its highest levels in over a year. This leaves the S&P's dividend yield at 2.1% today. That means holding the various levels of risk and other factors constant, stocks are yielding over 1% more than the 10-Year yield. That sharp divergence in yields is shown in the chart below.



Since the mid-2000s, the spread between the S&P's dividend yield and the 10-year yield has only moved above one on one other occasion, and that was near the depths of the Financial Crisis in December 2008.



From the front page of this morning's WSJ:

The U.S. death toll from the coronavirus outbreak rose to six as the global count topped 3,000, but investors' hopes that last week's sharp stock slide will prompt central banks to stabilize markets and shield economic growth sent the Dow Jones Industrial Average to its biggest one-day percentage gain in more than a decade.

The blue-chip index of 30 stocks surged 1,293.96 points, or 5.1%, to 26703.32 in its biggest one-day percentage gain since March 2009 and its biggest point advance on record. Other major indexes posted their biggest one-day percentage gains since December 2018.

Monday's moves helped reverse some of the declines suffered last week—the worst for major U.S. indexes since the financial crisis. ...

From Morningstar's Susan Dziubinski's Feb. 24th coverage of Berkshire Hathaway's annual Shareholder Letter:

Buffett says that interest-rate forecasts aren't his thing, admitting that he and partner Charlie Munger have no idea where rates are going in the next year--or next decade, for that matter. Further, Buffett acknowledges that anything can happen to stock prices tomorrow.

Yet long term, there's no better place for investors to be than equities.

"What we *can* say is that *if* something close to current rates should prevail over the coming decades and *if* corporate tax rates also remain near the low level businesses now enjoy, it is almost certain that equities will *over time* perform far better than long-term, fixed-rate debt instruments," he writes.

Granted, Buffett's not going out on much of a limb here. But his comments are nevertheless a good reminder for long-term investors who worry that the market is "due" for a downturn. Maybe it is. Maybe it isn't. But Buffett argues that equities are the better choice over the long term "for the individual who does not used borrowed money and who can control his or her emotions."

While we have sold several equity REITs that had become overvalued, Real Estate remains an important component in all client portfolios, and publicly traded REITs remain the best vehicle. From Forbes Real Estate Investor's February issue:

Since 1972 equity REITs have outperformed every major index and since 1989 REIT volatility relative to the S&P 500 has been 45% less. In other words, slightly better returns but far superior risk-adjusted total returns. All while enjoying generous, safe and growing income over time, excluding (this is a big one) the historical anomaly that was the financial crisis when 87% of REITs were forced to cut dividends due to high debt.

Investment Performance

Year-to-date and compound annual total returns of the FTSE Nareit All REITs Index, the FTSE Nareit All Equity REITs Index, and leading US benchmarks for periods ending November 30, 2019:

	FTSE Nareit					Dow Jones
	All REITs	All Equity REITs	S&P 500	Russell 2000	Nasdaq Composite	Industrial Average
2019: YTD	27.08	27.88	27.63	22.01	**31.91**	23.05
1-Year	17.26	17.79	16.11	7.51	**19.51**	12.48
3-Year	11.54	11.68	14.88	8.57	**18.91**	16.32
5-Year	8.52	8.57	10.98	8.22	**13.86**	12.20
10-Year	13.08	13.30	13.44	12.38	**16.30**	13.30
15-Year	8.10	8.65	9.03	7.93	**9.92**	9.57
20-Year	11.44	**11.74**	6.20	8.02	*4.89*	7.38
25-Year	10.82	**11.18**	10.15	9.34	*10.28*	*8.39*
30-Year	10.16	**10.75**	9.94	9.40	*10.31*	*8.11*
35-Year	9.38	10.86	**11.38**	9.94	*10.76*	*9.45*
40-Year	10.80	**12.05**	11.79	10.84	*10.78*	*9.23*
1972 - 2019	9.77	**11.83**	10.62	-	*8.91*	*7.47*

Data in percent; highest return for the period in bold.
Returns in italics are price-only.

Source: NAREIT

Follow-ups

As previously shared, the Obama Administration's attempt to have brokers meet the same fiduciary responsibility for retirement accounts that is required of Registered Investment Advisors like Hughes Capital Management for all accounts failed. This, from the WSJ's Jason Zweig on February 15-16, is the result:

Your Broker and You: New Rules, Old Tricks

New regulations will soon restrict some unsavory practices, but they don't absolve investors of the need to remain vigilant

Brokers will soon be getting the rule book thrown at them. Investors still need to read the writing on the wall.

Before long, brokers will be restrained from placing their own or their firm's interests ahead of their retail clients' when making investment recommendations. Regulation Best Interest, adopted by the Securities and Exchange Commission last June, goes into force June 30.

Even as it restricts some unsavory practices, it raises other issues for investors.

Under the regulation, brokers must disclose all material fees, costs and conflicts of interest. The rule generally prevents brokers from calling themselves "financial advisers" unless they are licensed as such or their firm is registered as an investment adviser.

Brokers must use "reasonable diligence, care and skill" in making a recommendation, including whether the cost is justified. Firms must mitigate or eliminate incentives that create material conflicts of interest.

The rule also requires brokers to justify why they recommend a particular type of account.

Say you own a few municipal bonds you plan to hold until they mature many years from now, or a handful of stocks you've glued in place. Why should you pay a recurring annual fee? Instead, you should be charged only when you trade, which is close to never.

If that's you, you belong in a brokerage rather than an advisory account. Yet, in recent years, firms have been piledriving even inactive investors into accounts that generate annual fees. The new rule should discourage that.

Positive and overdue, these changes don't absolve investors of the need to remain vigilant.

The requirement to compare the cost of a recommendation doesn't obligate a broker to recommend the cheapest choice.

The rule may discourage some professionals from pushing private partnerships, real-estate funds or complex annuities, where costs can exceed 10%. But such pricey investments remain permissible, so long as the broker determines that they are otherwise appropriate for you.

These hard-to-trade "alternatives" remain popular—at least among brokers. A study by the SEC found, as of 2017, that 61% of retail brokerages offered privately placed securities, with 40% selling variable annuities.

Starting Feb. 5, securities commissioners from almost 30 states launched a regulatory action to gather details on the sales practices of brokers and investment advisers. Alternative products are a focus, partly because they so often lead to complaints from customers, says Clinton Edgar, Texas deputy securities commissioner.

"While those products may be suitable for a lot of investors, they also create investor harm and confusion year after year," says Ohio Securities Commissioner Andrea Seidt. "If they continue to be sold to investors en masse without some restraint, then I think that's an indication of some form of regulatory failure."

So brokers may still hawk the riskiest, costliest products—as long as they check all the new regulatory boxes first. That's why you should always ask whether a simpler, cheaper choice could attain your goals.

Consider, too, a shadowy practice called forgivable loans. After lending money to new recruits, a firm credits them with repayment as they meet predetermined performance targets.

Those thresholds—often based on measures such as total new assets or fees and commissions—create a conflict of interest, according to regulators. The more business the brokers drum up, the less money they owe the firm. That can lead them to churn accounts with excessive trading, to flog high-cost investments or simply to sell something, anything, to get themselves out of debt.

Under the new regulation, firms will typically have to disclose the loans, as well as to mitigate or eliminate any conflicts arising from them. They won't be able to tie the debt to sales targets for specific securities within a limited time period.

The rule doesn't forbid forgivable debt linked to such general targets as overall sales volume or growth of total assets, however.

That means brokers can still have an incentive to make a recommendation based not only on what is best for you but also on what will help them get out of debt.

And new forms of phantom compensation, posing similar conflicts, could emerge as firms try to make end-runs around the new rules. They would be subject to the same regulatory requirements, though.

"If you close one compensation avenue, it's going to pop up somewhere else," says Scott Bauguess, a finance professor at the University of Texas at Austin and a former economist at the SEC. "Investment professionals have to be compensated some way. How the marketplace is going to adapt in terms of compensation is a big open question."

Especially if your broker or adviser has recently joined a new firm, you should ask whether that entails any loans tied to performance goals.

To be sure, a new disclosure required under the regulation, called Form CRS, is intended to tease out much of this detail in a maximum of four pages.

Will investors already reeling from information overload peruse yet another regulatory document? If you believe that, you should hear my pet salamander play the harmonica.

Instead, investors will have to keep asking questions—just as they have always had to.

Positions

IRET - We sold this Apartment REIT for all clients on 2/5 @ 79.24 when the announcement that it would be joining the S&P SmallCap 600 pushed it above our sell target.


yahoo/finance
80.00
75.00
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2020
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