Compounding With Passive And Active Strategies

The Tweet on the left below from Charlie Bilello makes a strong case for a passive, buy-and-hold investment strategy. Supporting his graphical evidence is a quote from investment legend Charlie Munger, alluding that investors should buy and hold and let compounding work its magic. Consequently, investors who panicked at the market low in 2020, sold everything, and did not buy back in would have surrendered significant gains. Compounding and the fortitude to stick with a passive strategy proved to be a winning combination over the last few years. Albert Einstein once said, "*Compound interest is the world's eighth wonder.*" It's daunting to challenge Munger and Einstein, but here we go.

Bilello's graph assumes the extreme worst-case scenario: an investor sells everything at the low and doesn't reenter the market. Let's take the opposite case with a perfect active strategy. What if an investor sold the market peak in January 2020 and repurchased it at the bottom in March? The green line on the graph to the right adds this scenario to Bilello's other two scenarios.

The point of this exercise is not to claim that calling market tops or bottoms is achievable but that active management, when done well, allows investors to outperform a passive strategy. Moreover, the benefits of compounding are greatly accentuated when active investing outperforms a passive approach. Furthermore, even if an active investor doesn't perfectly time significant peaks and troughs, active management can still help you achieve better results than the market. However, we caution that poor active management decisions can result in underperformance versus the market.

What To Watch Today

Earnings

Monday Oct 28		EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time	
🇺🇸	Waste Management WM:US	1.88	1.63			5.51B	5.2B	$84.18B	Q3	AM	★ 🔔
🇺🇸	Cadence Design Systems CD	1.44	1.26			1.18B	1.02B	$67.57B	Q3	AM	★ 🔔
🇺🇸	Ford Motor F:US	0.47	0.39			45.32B	44B	$44.61B	Q3	AM	★ 🔔
🇺🇸	Brown & Brown BRO:US	0.88	0.71			1.16B	1.07B	$30.31B	Q3	AM	★ 🔔
🇺🇸	On Semiconductor ON:US	0.97	1.39			1.75B	2.18B	$29.48B	Q3	AM	★ 🔔
🇺🇸	SBA Communications SBAC:US	2.26	0.80			669.29M	682.6M	$26.47B	Q3	AM	★ 🔔
🇺🇸	CenterPoint Energy CNP:US	0.41	0.40			2.01B	1.95B	$18.75B	Q3	AM	★ 🔔
🇺🇸	Regency Centers REG:US	0.46	0.50			358.78M	338.36M	$13.36B	Q3	AM	★ 🔔
🇺🇸	F5 Networks FFIV:US	3.45	3.50			730.89M	707M	$11.64B	Q4	AM	★ 🔔
🇺🇸	Encompass Health EHC:US	0.94	0.86			1.33B	1.21B	$9.58B	Q3	PM	☆ 🔔
🇺🇸	Crane CR:US	1.24	0.96			570.98M	530.10M	$8.59B	Q3	AM	☆ 🔔
🇺🇸	Brixmor Property BRX:US	0.22	0.21			320.22M	307.31M	$8.45B	Q3	AM	☆ 🔔
🇺🇸	Universal Forest Products UFPI	1.89	2.10			1.77B	1.83B	$8.04B	Q3	AM	☆ 🔔
🇺🇸	Amkor Technology AMKR:US	0.50	0.54			1.84B	1.82B	$7.28B	Q3	AM	☆ 🔔
🇺🇸	Trex TREX:US	0.32	0.57			225.77M	304M	$6.9B	Q3	AM	☆ 🔔
🇺🇸	Flowserve FLS:US	0.67	0.50			1.13B	1.09B	$6.87B	Q3	AM	☆ 🔔
🇺🇸	VF VFC:US	0.39	0.63			2.75B	3B	$6.52B	Q2	PM	☆ 🔔
🇺🇸	Affiliated Managers AMG:US	4.84	4.23			521.87M	578.6M	$6.22B	Q3	AM	☆ 🔔
🇺🇸	Boise Cascade BCC:US	2.32	3.58			1.72B	1.83B	$5.38B	Q3	AM	☆ 🔔
🇺🇸	Kilroy Realty KRC:US	0.35	0.45			275.86M	283.6M	$4.92B	Q3	AM	☆ 🔔
🇺🇸	BGC Partners BGCP:US		0.19				454.90M	$4.53B	Q3	AM	☆ 🔔
🇺🇸	Rambus RMBS:US	0.52	0.93			147.67M	105.3M	$4.5B	Q3	AM	☆ 🔔
🇺🇸	COPT Defense Properties OFC	0.31	-1.94			167.91M	155.27M	$3.63B	Q3	PM	☆ 🔔
🇺🇸	Potlatch PCH:US	-0.06	0.14			240.79M	265.5M	$3.38B	Q3	AM	☆ 🔔
🇺🇸	Northwestern NWE:US	0.71	0.49			352.25M	321.1M	$3.37B	Q3	PM	☆ 🔔
🇺🇸	Alliance Resource Partners AR	0.86	1.18			641.98M	636.52M	$3.22B	Q3	AM	☆ 🔔
🇺🇸	Agilysys AGYS:US	0.30	0.25			67.5M	58.6M	$2.99B	Q2	AM	☆ 🔔
🇺🇸	Seaboard SEB:US		108.55				2.39B	$2.9B	Q3	AM	☆ 🔔
🇺🇸	Avis Budget CAR:US	8.43	16.78			3.55B	3.6B	$2.88B	Q3	PM	☆ 🔔
🇺🇸	Bank of Hawaii BOH:US	0.82	1.17			160.3M	171.27M	$2.61B	Q3	AM	☆ 🔔
🇺🇸	Acadia Realty AKR:US	0.09	-0.02			71.11M	81.39M	$2.51B	Q3	PM	☆ 🔔
🇺🇸	Heartland Financial USA HTLF:I	1.17	1.12			186.89M	174.2M	$2.44B	Q3	AM	☆ 🔔
🇺🇸	Calix CALX:US	0.09	0.45			201.06M	263.8M	$2.44B	Q3	AM	☆ 🔔
🇺🇸	CVR Energy CVI:US	-0.08	1.89			1.94B	2.52B	$2.39B	Q3	AM	☆ 🔔
🇺🇸	Addus HomeCare ADUS:US	1.29	1.15			289.62M	270.7M	$2.1B	Q3	AM	☆ 🔔
🇺🇸	NBT Bancorp NBTB:US	0.77	0.84			144.61M	135.13M	$2.05B	Q3	AM	☆ 🔔
🇺🇸	SJW SJW:US	1.17	1.13			213.07M	204.8M	$1.86B	Q3	AM	☆ 🔔
🇺🇸	Leggett & Platt LEG:US	0.33	0.36			1.1B	1.18B	$1.65B	Q3	PM	☆ 🔔
🇺🇸	Harmonic HLIT:US	0.21				181.76M	127.2M	$1.62B	Q3	AM	☆ 🔔
🇺🇸	Ultra Clean UCTT:US	0.33	0.04			515.88M	435M	$1.57B	Q3	AM	☆ 🔔
🇺🇸	LTC Properties LTC:US	0.50	0.54			35.23M	31.59M	$1.55B	Q3	PM	☆ 🔔
🇺🇸	Two Harbors Investment TWO:L		-0.01				-49.4860	$1.34B	Q3	PM	☆ 🔔

Economy

Monday October 28 2024				Actual	Previous	Consensus	Forecast		
09:30 AM	🇺🇸 US	Dallas Fed Manufacturing Index OCT			-9		-1	▯▮	🔔
10:30 AM	🇺🇸 US	2-Year Note Auction			3.520%			⌒	🔔
10:30 AM	🇺🇸 US	3-Month Bill Auction			4.510%			⌄	🔔
10:30 AM	🇺🇸 US	6-Month Bill Auction			4.310%			／	🔔
12:00 PM	🇺🇸 US	5-Year Note Auction			3.519%			⌒	🔔
02:00 PM	🇺🇸 US	Treasury Refunding Financing Estimates							

Market Trading Update

[*st week,*](#) we discussed the triggering of the weekly seasonal MACD buy signal. To wit:

> "The WEEKLY S&P 500 chart, with three different signals, confirms the start of the seasonal period. With Friday?s close in the green, keeping the week broadly positive, all three seasonal buy signals have been triggered. **However, just because the seasonally strong period of the year has technically started, it doesn't mean that the markets won't have corrections along the way.** Notably, we have already had 6-straight weeks of gains, which is a long stretch without a pullback. Secondly, while the

*market is on a weekly "buy signal," the market is both deviated and overbought short-term. **When the market breadth is very elevated, combined with overbought and deviated markets from the 50 and 200-DMA, corrections and consolidations tend to be more prevalent."***

Unsurprisingly, the market stumbled a bit this past week, breaking the *"rising wedge"* pattern to the downside. While the correction has been mild, with the election looming, some further consolidation or reversal as portfolio managers *"derisk"* for election risk should be expected. However, the market continues to find buyers at the 20-DMA as portfolio managers are unwilling to be *"out of the market"* currently.

Notably, the market rallied to the underside of the rising trend line but failed at that resistance level. While the moving averages will provide some short-term support, we must remember that the negative divergence in relative strength and momentum remains.

As noted, there is currently little risk of a bigger near-term correction. However, some things could cause one, like a highly contested election. In the current political environment, such is not a low-probability event. As such, while we remain allocated to the markets, we are closely monitoring the amount of risk we take.

The Week Ahead

This week, earnings, inflation, employment, and election polling will make the headlines.

The BLS JOLTs and Employment Report will be released on Tuesday and Friday. ADP will shine additional light on the labor market on Wednesday. Economists expect to see a gain of 170k jobs, down from 254k last month. A downward revision to the previous month's figure would not be surprising. Headline and Core PCE, the Fed's preferred inflation gauge, are expected to increase by 0.1%. That data will be released on Thursday.

The markets have been pricing in a Trump victory with an increasing chance the Republicans take both houses of Congress. The daily onslaught of polls will either affirm the market or cause some consternation among investors.

As we share below, courtesy of TradingView, many earnings reports from some of the largest companies are due this week.

TICKER 965 MATCHES	MKT CAP	EPS ESTIMATE	REPORTED EPS	SURPRISE	SURPRISE %	REVENUE FORECAST	REVENUE ACTUAL	DATE	PERIOD ENDING	TIME
AAPL APPLE INC	3.542 T USD	1.59 USD	–	–	–	94.378 B USD	–	2024-10-31	2024-09-30	☾
MSFT MICROSOFT CORP.	3.208 T USD	3.11 USD	–	–	–	64.57 B USD	–	2024-10-30	2024-09-30	☾
GOOG ALPHABET INC (GOOGLE) CLASS C	2.045 T USD	1.84 USD	–	–	–	86.373 B USD	–	2024-10-29	2024-09-30	☾
AMZN AMAZON.COM, INC.	1.996 T USD	1.14 USD	–	–	–	157.25 B USD	–	2024-10-31	2024-09-30	☾
META META PLATFORMS, INC.	1.464 T USD	5.21 USD	–	–	–	40.191 B USD	–	2024-10-30	2024-09-30	☾
LLY ELI LILLY AND COMPANY	854.195 B USD	1.45 USD	–	–	–	12.09 B USD	–	2024-10-30	2024-09-30	☀
V VISA INC.	558.075 B USD	2.58 USD	–	–	–	9.486 B USD	–	2024-10-29	2024-09-30	☾
XOM EXXON MOBIL CORPORATION	532.473 B USD	1.89 USD	–	–	–	94.242 B USD	–	2024-11-01	2024-09-30	☀
MA MASTERCARD INCORPORATED	470.001 B USD	3.74 USD	–	–	–	7.266 B USD	–	2024-10-31	2024-09-30	☀
ABBV ABBVIE INC.	334.387 B USD	2.92 USD	–	–	–	14.285 B USD	–	2024-10-30	2024-09-30	☀
CVX CHEVRON CORPORATION	277.227 B USD	2.43 USD	–	–	–	48.863 B USD	–	2024-11-01	2024-09-30	☀
MRK MERCK & COMPANY, INC.	266.586 B USD	1.48 USD	–	–	–	16.447 B USD	–	2024-10-31	2024-09-30	☀

Low Forward Returns Are A High Probability Event

As stated at the outset, valuations are a terrible market timing metric. However, they tell us much about asset bubbles, investor psychology, and future returns.
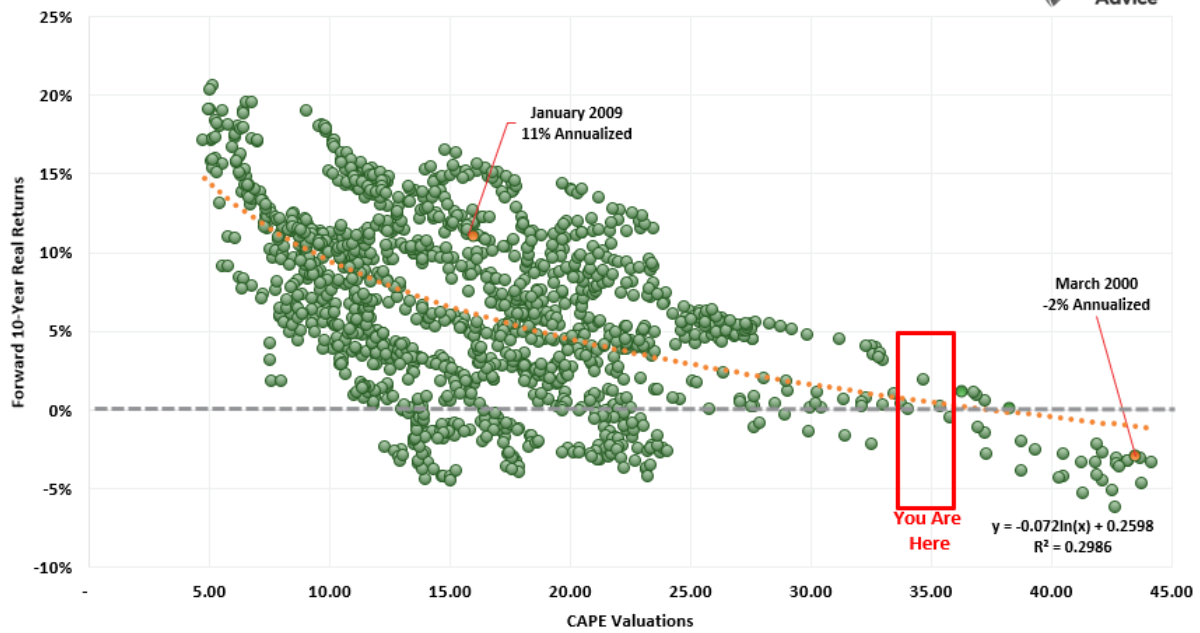
No matter how many valuation measures we use, the message remains the same: From current valuation levels, investors? expected rate of return over the next decade will likely be lower.

There is a large community of individuals who suggest differently and make a case for why this *?bull market?* can continue for years longer. Unfortunately, no valuation measure supports that claim.

But let me be clear: I am not suggesting the next *?financial crisis?* **is upon us either.** I am suggesting that based on various measures, forward returns will be relatively low compared to what we witnessed over the last eight years. **Such is particularly the case as the Fed and central banks globally begin to extract themselves from the cycle of interventions.**

READ MORE...

Forward 10-Year Real Returns

Real Investment Advice

January 2009
11% Annualized

March 2000
-2% Annualized

You Are Here

$y = -0.072\ln(x) + 0.2598$
$R^2 = 0.2986$

CAPE Valuations

Tweet of the Day

Lance Roberts ✔ @LanceRoberts · 4h · · ·

#Bull #Markets make #investing geniuses out of everyone. As this unbreakable market continues, #retail #investors are bailing on #ETFs to buy single #stocks.
What could possibly go wrong?

Retail net purchases (5-day ma, US$mn)

Posted on
The Daily Shot
25-Oct-2024

@SoberLook

Single stocks

ETFs

As of 23 oct; Source: VandaTrack, Vanda Research

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