

Everyone Is Passive Until The Selling Begins

Sell Sell! SELL!!!



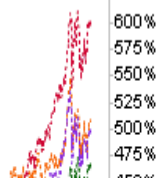
"Apple has just announced that next quarter they will quadruple their sales of their iPhone X+ as every person on the planet now owns one."

If that were a real announcement the stock price should immediately skyrocket higher, right? Nope, it didn't. In fact, it didn't move at all. Why? Because, no one bought or sold a single share. How can that be? Because the whole world is now "passively" investing. Well, that's the way a lot of advisors are proposing as the way you should invest. The problem is that it is lazy money management, so why are you paying for the advice, but more importantly, markets don't function that way. [Larry Swedroe](#) wrote a piece just recently admonishing active portfolio managers and suggesting that everyone should just passively invest. **After all, the primary argument for passive investing is that active fund managers can't beat their indices over time which is clearly demonstrated in the following chart.**

VFIX Vanguard Index Trust 500 Index Fund USMF
23-May-2018

Open 253.03 High 253.03 Low 253.03 Close 253.03 Chg +0.82 (+0.33%) ▲
© StockCharts.com

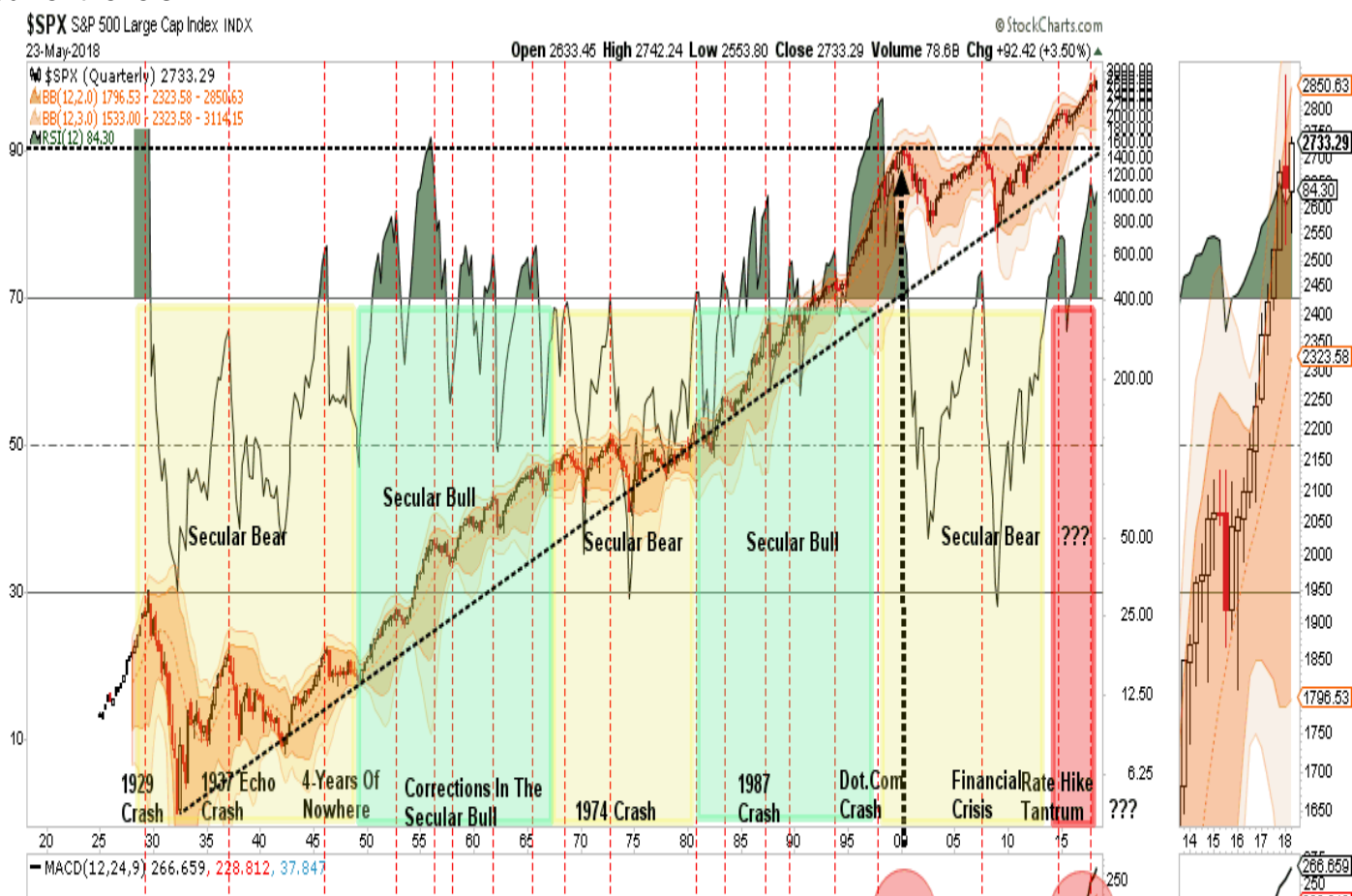
— VFINX (Daily) 316.70%
•• FCNTX 600.95%
•• TRBCX 467.90%
•• DODGX 495.75%
•• SHRAX 508.54%
•• BUFEX 365.60%



Oops. There are large numbers of active fund managers who have posted stellar returns over long-term time frames. **No, they don't beat their respective benchmarks every year, but beating some random benchmark index is not the goal of investing to begin with.** The goal of investing is to grow your "savings" over time to meet your future inflation-adjusted income needs without suffering large losses of capital along the way. Don't get me wrong, I admire Larry very much. However, it is important to understand a couple of important concepts around the "fallacy" of passive investing. First, while my example above is extreme, the problem with even 20% of the market being "passive" is the liquidity issues surrounding the market as a whole. **With more ETF's than individual stocks, and the number of outstanding shares traded being reduced by share buybacks, the risk of a sharp and disorderly reversal remains due to compressed credit and liquidity risk premia.** As a result, market participants need to be mindful of the risks of diminished market liquidity, asset price discontinuities and contagion across asset markets. As Howard Marks, mused in his [?Liquidity?](#) note:

"ETF's have become popular because they're generally believed to be better than mutual funds, in that they're traded all day. Thus an ETF investor can get in or out anytime during trading hours. But do the investors in ETFs wonder about the source of their liquidity???"

Secondly, individual investors **are NOT passive** even though they are investing in "passive" vehicles. Today, more than ever, advisors are actively migrating portfolio management to the use of ETF's for either some, if not all, of the asset allocation equation. **However, they are NOT doing it passively.** The rise of index funds has turned everyone into "asset class pickers" instead of stock pickers. However, just because individuals are choosing to "buy baskets" of stocks, rather than individual securities, **it is not a "passive" choice but rather "active management" in a different form.** While the idea of passive indexing works while all prices are rising, the reverse is also true. **The problem is that once prices begin to fall the previously passive indexers will become active panic sellers.** With the flood of money into passive index and yield funds, the tables are once again set for a dramatic and damaging ending. **It is only near peaks in extended bull markets that logic is dismissed for the seemingly easiest trend to make money.** Today is no different as the chart below shows the odds are stacked against substantial market gains from current levels.



As my partner, Michael Lebowitz, [noted](#):

?Nobody is going to ring a bell at the top of a market, but there are plenty of warped investment strategies and narratives from history that serve the same purpose ?remember internet companies with no earnings and sub-prime CDOs to name two.?

Investors need to be cognizant of and understand why the chorus of arguments in favor of short-sighted and flawed strategies are so prevalent. The meteoric rise in passive investing is one such • *?strategy?* • sending an important and timely warning. **Remember, everyone is *?passive?* until the selling begins.** • Oh, I almost forgot, the other problem with the whole "passive investing" mantra is that *"getting back to even"* is not a successful investment strategy to begin with. Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **Ford, GM & FCA Bet On Trump And Lost** [by Matthew DeBord via BI](#)
 - **Deal Or No Deal With China** [by Caroline Baum via MarketWatch](#)
 - **Guaranteed Jobs Is Guarantee Of Stagnation** [by Allan Golombek via RCM](#)
 - **There Is A Disconnect Between The Fed & Workers Economy** [by Pedro Da Costa via BI](#)
 - **Blundering Into Recession** [by James Rickards via Daily Reckoning](#)
 - **The Next Recession Will Be Devastatingly Non-Linear** [by Charles Hugh Smith via Of Two Minds](#)
 - **US Will Spend \$700 Billion On ObamaCare Subsidies In 2018** [by Tyler Durden via ZeroHedge](#)
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Markets

- **Goldman: Something Isn't Quite Right** [by Tyler Durden via ZeroHedge](#)
 - **How Stable Is Earnings Growth** [by Macromon via Global Macro Monitor](#)
 - **Charts That Make You Go Hmmm...** [by Sven Henrich via Northman Trader](#)
 - **Iran Sanctions Could Push Gold Higher** [by Simon Constable via Forbes](#)
 - **Is Oil About To Become Front Page News** [by John Rubino via DollarCollapse.com](#)
 - **Stocks Down 20% By Time Yield Hits 4%** [by Brian Sozzi via TheStreet.com](#)
 - **Volatility Floored** [by Dana Lyons via The Lyons Share](#)
 - **Bulls Vs Bears Tug Of War** [by Michael Cannivet via RCM](#)
 - **A Hidden Risk Investors Need To Watch Out For** [by Ryan Vlastelica via MarketWatch](#)
 - **What Are They Smoking** [by Ed Yardeni via Yardeni Research](#)
 - **BofA: 15-Signs It's Late In The Game** [via ZeroHedge](#)
 - **Would Cam Newton Buy Stocks Now** [by Spencer Jakab via WSJ](#)
 - **Gundlach Defends Technical Analysis** [by Robert Heubscher via Advisor Perspectives](#)
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Most Read On RIA

- **Riding The Bull** [by Lance Roberts](#)
- **It's Okay To Hold Some Cash** [by John Coumarionos](#)
- **The Trend Is Your Friend, Till It's Not** [by Michael Lebowitz](#)

- American Gridlock [by Lance Roberts](#)
 - 10-Habits Of The Fiscally Fit [by Richard Rosso](#)
 - Kass: There Is No Special Sauce [by Doug Kass](#)
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Research•/ Interesting•Reads

- Where Debt Slaves Are Most Vulnerable [by Wolf Richter via Wolf Street](#)
 - 9-Ways To Plan For A Comfortable Retirement [by Robert Powell via USA Today](#)
 - Income Inequality And Tomorrow's Retirees [by Michael Hiltzik via LA Times](#)
 - Over-75 & Deep In Debt - Join The Crowd [by Maurie-Backman via Motley Fool](#)
 - **43% OF Americans Can't Pay For Food Or Rent** [by Daisy Luther via The Organic Prepper](#)
 - Fed: 22% Of Americans Can't Pay Monthly Bills [by Tyler Durden via ZeroHedge](#)
 - 31% Of Americans Have Less Than \$5000 Saved [by Emmie Martin, CNBC](#)
 - Is It 1999 All Over Again? [by Jeff Troutner via Equis Partners](#)
 - **Borrow...If You Dare** [by Nick Maggiulli via Dollars and Data](#)
 - Tilson: How Success Led To My Fall [by Whitney Tilson via Yahoo](#)
 - The Meaning Of High Profit Margins • [by Edward Harrison via Credit Writedowns](#)
 - Why Young Americans Are Drawn To Socialism [by Steve Chapman via Reason.com](#)
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?What?s the difference between a pro and an amateur? Professionals look for what?s wrong with a setup. Amateurs only look for what?s right.??•Mark Harila

Questions, comments, suggestions ? please [email me](#).