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Schultz Collins 3rd Quarter 2021 Market Review and Commentary

The 3rd quarter was a rough one for equity markets, both in the US and aboard. Stocks ended the quarter relatively flat or down. Despite greater access to Covid vaccines, there were concerns over the lightning fast spread of the Delta variant, worries of rising US inflation, and uncertainties around China. The MSCI All Country World Index, a measure of the aggregate global equity markets, was down 0.95% for the quarter.

The S&P 500 set new record highs during the quarter but retreated in September. The index ended the quarter relatively flat with a return of about half a percent. US small cap stocks, as proxied by the Russell 2000 index, were down 4.46% for the quarter. US real estate rose one and quarter percent during the quarter. Even with recent lack luster performance, the three indexes are up at least 30% over the trailing 12-month period.

Overseas equity markets did not fare any better this quarter. The MSCI EAFE Index of international developed countries experienced a loss of about a third of a percent. Emerging markets were hit hard during the quarter as markets assess the fallout of the Chinese government's crackdown on tech companies and the debt crisis facing some of the country's largest real estate companies. Mainland China represents roughly a third of the MSCI Emerging Markets Index, which was down nearly 8% for the quarter. International developed countries are up 26.31% and emerging markets are up 18.6% over the training 12 months.

Bond markets were also relatively flat or down for the quarter. The US Aggregate Bond Index is up 0.05% for the quarter but down 0.9% over the trailing 12-month period. The domestic intermediate-term private debt market was also relatively flat over the quarter. The Bloomberg Barclays US Corporate Intermediate-term Bond index is up 0.08% for the quarter and up 1.31% over the trailing 12-month period. International bond markets underperformed relative to the US bond markets too. The FTSE World Government Bond Index is down one and quarter percent for the quarter and down three and a third percent over the trailing 12-month period.

The average yield on the 10-treasury note fell in July and August but rose in September to end the quarter at 1.37%. The recent rise in yields coincides with rising concerns over continued supply chain constraints that could lead to higher inflation. Yields tend to rise to compensate potential bond holders for taking on more inflation risks.

The theme for this quarter's discussion is "**Why Doesn't Schultz Collins Take Authority Over Client Accounts - & Why is that Important?"**. It is a presentation on why it is better for you, the client, to work with what is known as a non-discretionary advisor.

Schultz Collins does not take discretion over client accounts. It's been a strict policy with us from the very start. And it makes us quite different from almost all other investment advisors out there. But it will take some explanation to see why.

Almost all investment advisors take over the management of client portfolios. They require clients to give them discretion over their accounts. In other words, they require that clients give them the authority to trade on their own recognizance, as the advisors see fit. Later, they explain to their clients how the trades they executed have worked out – or have not. Clients of discretionary advisors often have very little idea what is being done with their portfolio, until after the fact. That doesn't mean that discretionary advisors are doing anything untoward, I hasten to add. It just adds a layer of obscurity to what is for most clients already a bewildering universe of poorly understood decisions.

There are benefits of discretionary advisory relationships, both for clients and for advisors. Clients benefit because they don't need to do any work to understand what decisions are being made. This makes a discretionary advisor easier to work with. The discretionary advisors, for their part, don't need to bother with keeping the client in the loop about every little trade. They can trade much more efficiently.

These benefits are, we think, more apparent than real. A discretionary arrangement is indeed less work for everyone – in the short run. But we think it is more work for everyone in the long run, and what is much more important, that it has a greater chance of coming to grief.

We do not make investment decisions for our clients, but rather support them in making their own decisions. We don't ask them to choose from among several proprietary portfolios we maintain – because we don't have any! All of our client portfolios are uniquely their own, customized to their preferences and objectives.

We help clients understand and explore the financial and economic landscape, and choose from among a number of possible solutions the path forward that seems right to them. We then help them take that path. We do not trade without prior approval from our clients, and we use the custodians they have chosen, where their accounts are registered not to us, but to them. We revisit their decisions regularly, so that they can feel confident they are headed in the right direction, and that the portfolio behaving as expected when they chose it.

It is also worth mentioning that, unlike many advisors, we never accept commissions or charge performance fees. All our revenue comes from fees clients themselves choose to pay us. That means we don't care which investments our clients choose. Our advice is therefore objective. That said, because our fees are strictly a function of the value of client portfolios, if the client does well, we do too. So, we are motivated to give our clients good and prudent advice, not just because it is the right thing to do, and not just because as full fiduciaries we are legally and ethically required to do so, but because our interests are aligned with theirs. So, we are focused on controlling all the costs we can, and helping them make prudent, informed, and rational choices, thus increasing the stability of their portfolios, and improving their chances of long-term success in meeting their objectives.

Because our clients remain in control of their portfolios, and because we consult them at every turn, they stay intellectually engaged in the process. The gradual increase of understanding these practices engender then leads to reduced anxiety, and some measure of emotional insulation from the crises that seem to crop up with every news cycle. Our clients tell us that in working with us, they understand what they are doing with their portfolios for the first time, and have stopped worrying so much.

Non-discretion is more work for us – a lot more. But over the long run, we have found it tremendously rewarding. We are in this with our clients. And they like that. It's a good feeling.

A video of this discussion is also available at our web site at https://schultzcollins.com/resources.htm. We encourage you to visit our site not only for this presentation but for other related material as well.

Should you have questions or comments, we would like to hear from you.