

INVESTING & PORTFOLIO MANAGEMENT IN 2020

WHAT IS AT STAKE, HOW IS IT DONE, AND HOW CAN IT CHANGE?

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INTRODUCTION

BAIT/Finance Major

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AGENDA

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- 1** WHY INVESTING MATTERS
 - 2** MIMICKING THE EXPERTS
 - 3** LESSONS/TAKEAWAYS

AESOP'S FABLES: WHO SHOULD WE BE?



GRASSHOPPER

enjoys life now
does not think about the future
caught unprepared in winter



ANT

saves up food in summertime
always preparing for future
enjoys winter with lots of food



SELF-OBSESSED ANTMAN

needs to have a bigger pile than others
steals from peers to increase stash
turned into an ant by Zeus

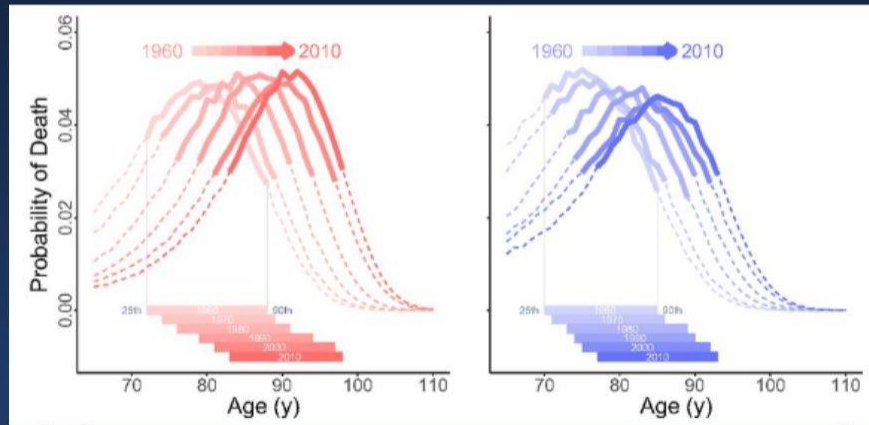
“HAPPY MEDIUM” OF RETIREMENT

Save enough to maintain a comfortable lifestyle later

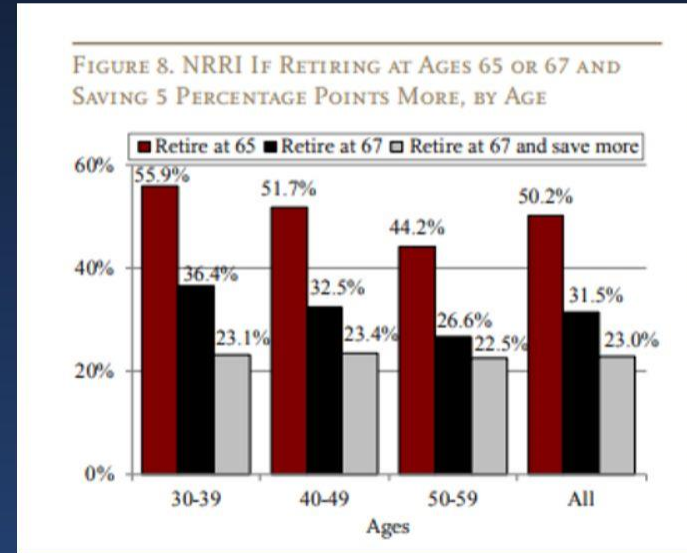
BUT

Do not become self-absorbed by wealth accumulation

CHALLENGE 1: LONGER RETIREMENTS WILL REQUIRE MORE SAVINGS



ZUO ET AL. 2018. AGE DISTRIBUTION AT DEATH OF JAPANESE FEMALES (RED) AND MALES (BLUE) BETWEEN 1960 AND 2010



MUNNELL ET AL. 2016. % OF PEOPLE WHO WILL MISS RETIREMENT GOALS BY 10% OR MORE

CHALLENGE 2: MORE PORTFOLIO CHOICES -> MORE MISTAKES

- **INEQUALITY AND EMPLOYEE OPT-IN VS OPT-OUT (KING 2019)**
- **WHEN GIVEN CHOICE BETWEEN FOUR FUNDS WITH IDENTICAL HOLDINGS, PEOPLE PRIORITIZE THE WRONG DATA(CHOI 2010)**
- **AVERAGE # OF ACTIVE FUNDS AVAILABLE INCREASED FROM 1.6 TO 6.4 (BROWN 2007)**
- **90% OF ACTIVE FUNDS UNABLE TO OUTPERFORM OVER LONG TERM (LIU, 2019)**

Vanguard defined contribution plans permitting employee-elective deferrals

	Voluntary enrollment	Automatic enrollment	All
All	60%	91%	74%
Income			
<\$15,000	21%	68%	31%
\$15,000–\$29,999	38	79	51
\$30,000–\$49,999	53	88	69
\$50,000–\$74,999	70	93	80
\$75,000–\$99,999	76	95	84
\$100,000–\$149,999	84	96	90
\$150,000+	91	97	94

CHALLENGE SUMMARY

- **CONFLICTING PRIORITIES**
 - **LONGER LIFESPANS**
 - **MORE INVESTMENT CHOICES**
-

Result: Investing becomes more confusing

How can professionals help their clients fulfill their goals given these challenges?

AGENDA

1 WHY INVESTING MATTERS

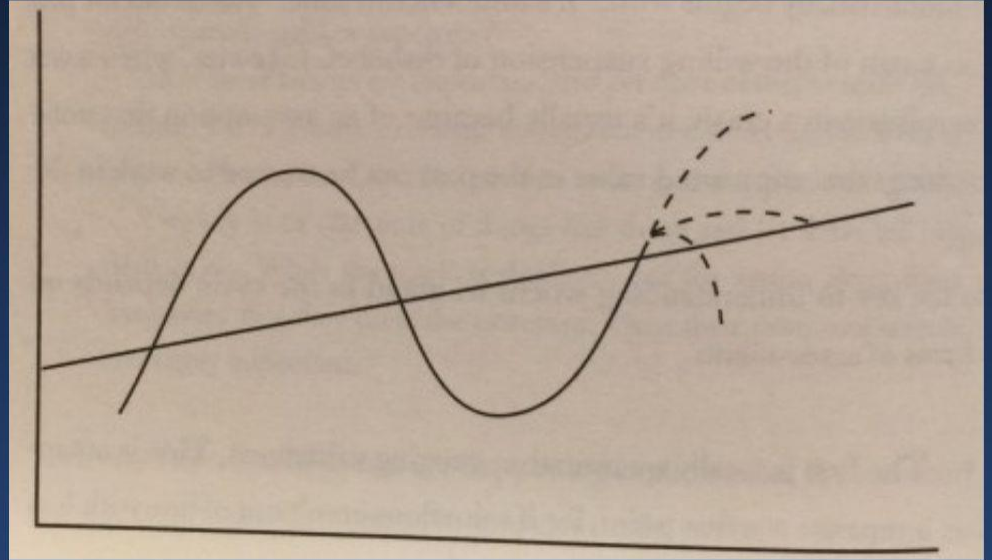


2 MIMICKING THE EXPERTS

3 LESSONS/TAKEAWAYS

HOWARD MARKS

- **FOUNDER OF OAKTREE CAPITAL**
- **SPECIALIZES IN DISTRESSED DEBT**
- **“HAPPY MEDIUM”**
- **MARKET CYCLES:
EXCESS GREED CAUSES
EXCESS FEAR AND VICE
VERSA (2018)**

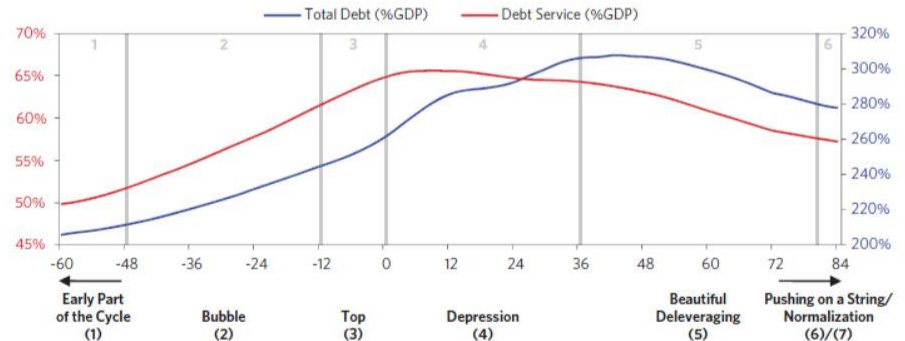


RAY DALIO

- FOUNDER OF BRIDGEWATER ASSOCIATES
- ECONOMIES FOLLOW CYCLES DRIVEN BY DEBT
- CYCLES CAN BE INFLATIONARY OR DEFLATIONARY
- SEVERITY BASED ON POWER AND AGILITY OF CENTRAL BANKS (2018)

The Phases of the Classic Deflationary Debt Cycle

The chart below illustrates the seven stages of an archetypal long-term debt cycle, by tracking the total debt of the economy as a percentage of the total income of the economy (GDP) and the total amount of debt service payments relative to GDP over a period of 12 years.



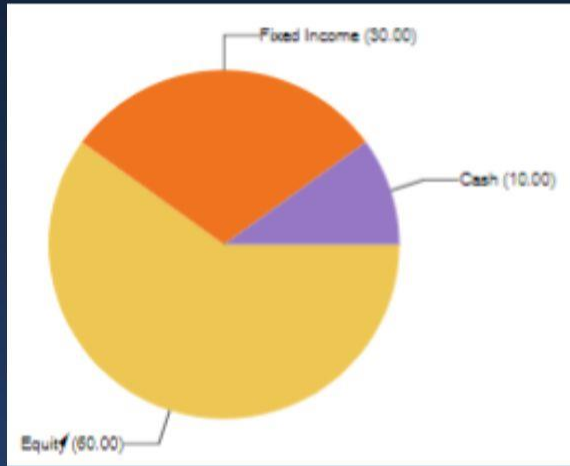
OUR INITIAL STRATEGY (OCT 2019)

- STEADY GDP GROWTH BUT INCREASING HOUSEHOLD DEBT AND TARIFF ESCALATION
- CONSUMER CONFIDENCE UNSHAKEN
- POSSIBLE SLOWDOWN IN 9 MONTHS
- ANTICIPATE SLOWDOWN BY PLAYING DEFENSIVELY



INITIAL TEAM JOURNAL. SHOWS SECTOR % WEIGHTINGS WITHIN S&P 500. NOTE THAT THE RED LINE (HEALTHCARE) TENDS TO SURPASS THE BLUE LINE (IT) AND GREEN LINE (FINANCIALS) DURING TIMES OF ECONOMIC DISTRESS (BLACK BARS).

OUR BETS (FALL 2019)



KEEP SAME MIX AS BENCHMARK

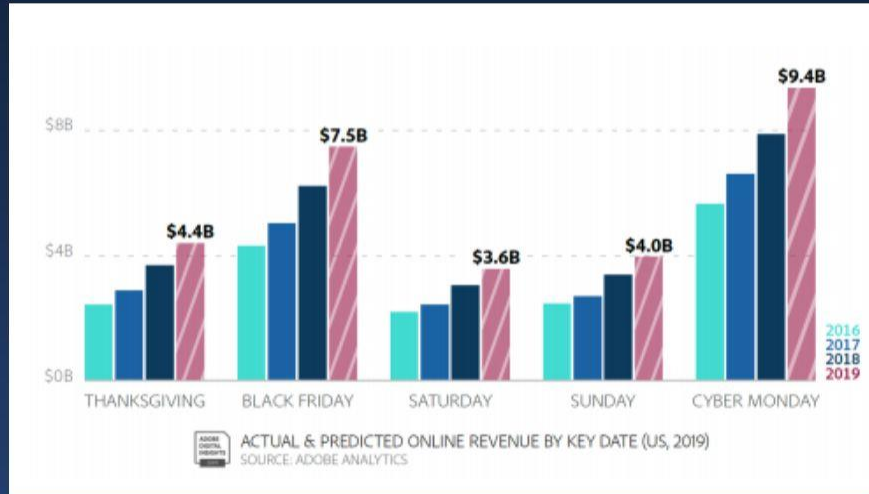
S&P 500			Our Stock Portfolio		
Asset	% Allocation	\$ Allocation	Ticker	% Allocation	\$ Allocation
Energy	5.32%	\$118,938.95	XLE	5.00%	\$100,000.00
Materials	2.73%	\$164,059.42	XLB	3.00%	\$60,000.00
Industrials	9.26%	\$552,044.48	XLI	6.00%	\$360,000.00
Consumer Discretionary	9.94%	\$596,488.13	XLY	12.00%	\$720,000.00
Consumer Staples	7.41%	\$444,579.73	XLP	10.00%	\$600,000.00
Health Care	15.54%	\$932,688.09	XLV	20.00%	\$1,200,000.00
Financials*	13.31%	\$798,542.16	XLF	11.00%	\$780,000.00
Information Technology	20.13%	\$1,107,234.59	XLC	17.00%	\$1,020,000.00
Communication Services**	10.12%	\$607,385.61	XLC	10.00%	\$600,000.00
Utilities	3.34%	\$200,287.98	XLU	3.00%	\$180,000.00
Real Estate*	2.96%	\$177,750.87	XLI	3.00%	\$180,000.00
S&P 500 (Total)	100.00%	\$6,000,000.00	S&P 500 (Total)	100.00%	\$6,000,000.00

EQUITY: BUY MORE HEALTHCARE AND LESS TECHNOLOGY

AGG			OUR Bond Portfolio				
Asset	% Allocation	\$ Allocation	Ticker	% Allocation	\$ Allocation	Mod Dur	Weighted duration
Govt	42.58%	\$ 1,277,430.00	GOVT	42.58%	\$ 1,277,400.00	6.488	2.7617388
Corp	28.40%	\$ 851,880.00	LGD	36.50%	\$ 1,098,000.00	9.256	3.354725
			HYG	0.00%	\$ -	3.921	0
Mortgage	28.23%	\$ 846,750.00	MBS	20.00%	\$ 600,000.00	4.031	0.8066
Muni	0.686000%	\$ 20,580.00	MUNI	0.69%	\$ 20,580.00	4.879	0.03346994
Cash	0.111000%	\$ 3,330.00	Cash	0.11%	\$ 3,330.00	0	0
Total	100.000000%	\$ 3,000,000.00		99.98%	\$ 2,999,310.00		6.95656474
Mod Dur		6.132					

FIXED INCOME: BUY IG CORPORATE BONDS INSTEAD OF MORTGAGES

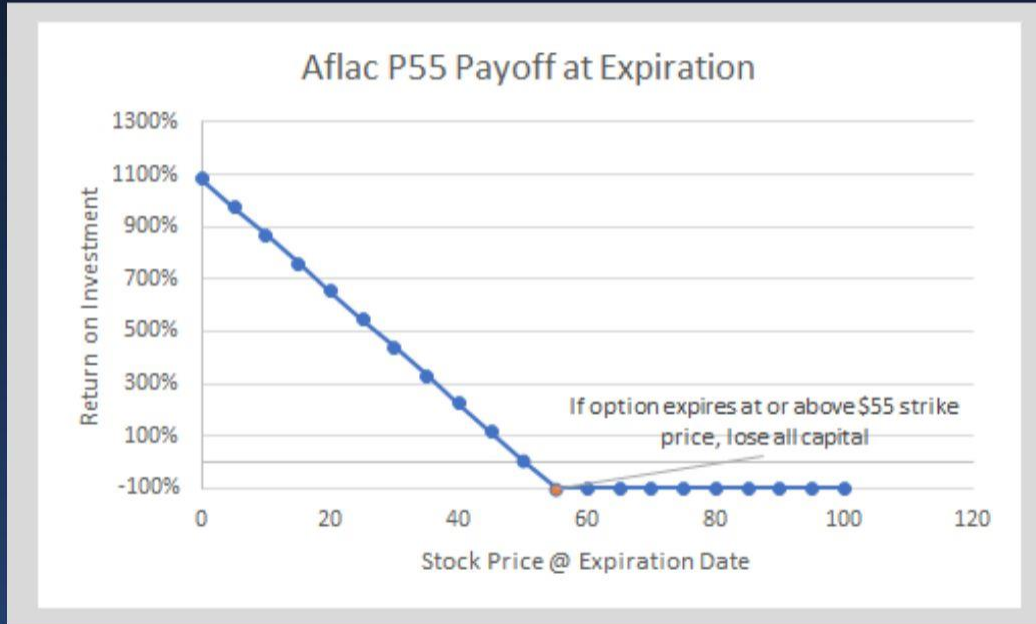
FALL AND EARLY JAN: EXCESS OPTIMISM



**NOVEMBER/DECEMBER: BLACK FRIDAY,
RETAIL RALLIES**

**JANUARY: DAVOS 2020 WORLD ECONOMIC
FORUM, ICLN (ESG ETF) GAINS 14.5%**

STRAYING FROM THE PLAN: AFLAC



**PUTS WITH A STRIKE PRICE OF \$55 AND AN EXPIRATION DATE OF 8/21/2020.
SHORT-TERMIST BET HOPING FOR POOR EARNINGS. DISAPPOINTED BUT COULD HAVE BEEN
346% ROI**

STATUS PRE-CORONAVIRUS

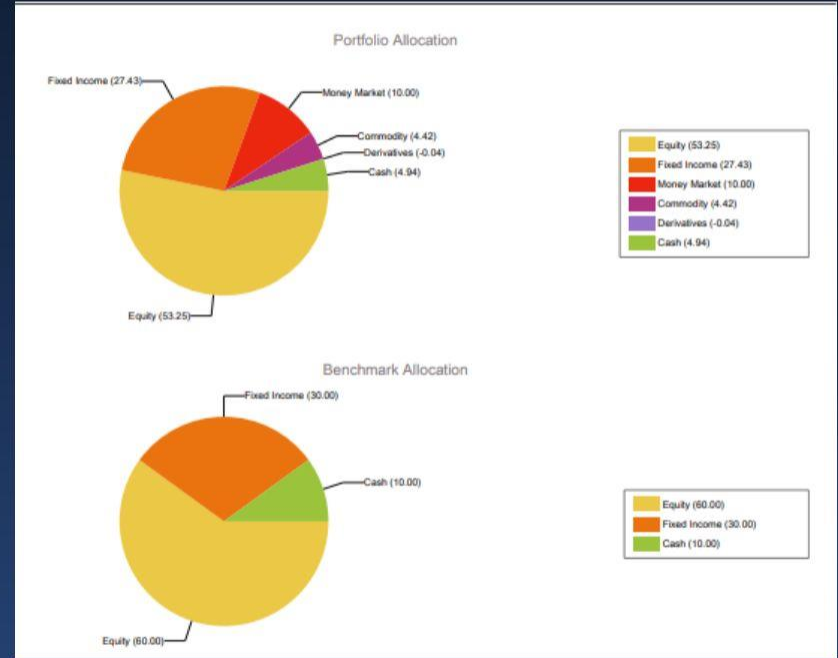


EARLY FEBRUARY TEAM JOURNAL. WE UNDERPERFORMED BY 50 BASIS POINTS. NOTE THAT WE GAINED, BUT NOT AS MUCH AS BENCHMARK.

MARCH REBALANCING

	9-Mar	% of equity	SPY	Old Over/Under	New over/under
TECHNOLOGY SELECT SECT SPDR	21%	24%	24%	-4%	-3%
HEALTH CARE SELECT SECTOR	15%	14%	14%	9%	1%
SPDR S&P 500 ETF TRUST	9%	#N/A	#N/A	#N/A	#N/A
COMM SERV SELECT SECTOR SPDR	9%	11%	11%	0%	-2%
CONSUMER DISCRETIONARY SELT	9%	10%	10%	6%	-1%
FINANCIAL SELECT SECTOR SPDR	7%	12%	12%	-1%	-5%
CONSUMER STAPLES SPDR	7%	7%	7%	-4%	-1%
INDUSTRIAL SELECT SECT SPDR	6%	9%	9%	-6%	-3%
ISHARES MSCI CHINA ETF	5%	#N/A	#N/A	#N/A	#N/A
REAL ESTATE SELECT SECT SPDR	4%	3%	3%	0%	1%
ENERGY SELECT SECTOR SPDR	3%	4%	4%	0%	0%
UTILITIES SELECT SECTOR SPDR	3%	4%	4%	0%	-1%
INVESCO SOLAR ETF	1%	0%	0%	2%	1%
MATERIALS SELECT SECTOR SPDR	1%	3%	3%	-2%	-2%

EQUITY: TRIMMING DOWN BETS, SHORT FINANCIALS



NEW ALLOCATIONS. GOLD, DERIVATIVES, SHIFTED EQUITY WEIGHTS

INDEX “ARBITRAGE”

Rank	Index	INDX_MEMBERS	bloomberg ticker	market cap	Anomaly	Anomaly Neighborhood
251	SPX Index	ROK UN	ROK UN Equity	22B	FALSE	TRUE
1	MID Index	IBKR UW	IBKR UW Equity	22B	TRUE	TRUE
252	SPX Index	MCHP UW	MCHP UW Equity	22B	FALSE	TRUE
354	SPX Index	LNT UN	LNT UN Equity	14B	FALSE	TRUE
2	MID Index	DPZ UN	DPZ UN Equity	14B	TRUE	TRUE
355	SPX Index	L UN	L UN Equity	14B	FALSE	TRUE
378	SPX Index	HOLX UW	HOLX UW Equity	13B	FALSE	TRUE
3	MID Index	TDY UN	TDY UN Equity	13B	TRUE	TRUE
379	SPX Index	BR UN	BR UN Equity	13B	FALSE	TRUE
4	MID Index	BRO UN	BRO UN Equity	13B	TRUE	TRUE
5	MID Index	TYL UN	TYL UN Equity	13B	FALSE	TRUE
397	SPX Index	VAR UN	VAR UN Equity	12B	FALSE	TRUE
6	MID Index	WST UN	WST UN Equity	12B	TRUE	TRUE
398	SPX Index	BEN UN	BEN UN Equity	12B	FALSE	TRUE
7	MID Index	MPW UN	MPW UN Equity	12B	TRUE	TRUE
399	SPX Index	PHM UN	PHM UN Equity	11B	FALSE	TRUE
408	SPX Index	UHS UN	UHS UN Equity	11B	FALSE	TRUE
8	MID Index	BIO UN	BIO UN Equity	11B	TRUE	TRUE
9	MID Index	CPT UN	CPT UN Equity	11B	FALSE	TRUE
409	SPX Index	RE UN	RE UN Equity	11B	FALSE	TRUE
10	MID Index	FICO UN	FICO UN Equity	11B	TRUE	TRUE

BUY THE “501ST” COMPANY ON ANTICIPATION OF AN INDEX ADD + FORCED DEMAND

ENDGAME

- **MSCI TURKEY BEAR SPREADS**
- **GOLDMAN SACHS P/E BET**
- **MODERNA PUTS**
- **AT SAME TIME, ASSET ALLOCATION PAID OFF**
- **OVERALL: 39 BASIS POINT OUTPERFORM**



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1 WHY INVESTING MATTERS

2 MIMICKING THE EXPERTS

—————→ **3** LESSONS/TAKEAWAYS

TRENDS

- **ESG AND IMPACT INVESTING**
- **INDEX SELECTION COMMITTEES**
- **RISE OF COMMISSION-FREE OPTIONS TRADES**

PERSONAL LESSONS

- PATIENCE WHILE TIDE IS AGAINST YOU
- INTELLECTUALLY STIMULATING IDEA != FREE MONEY
- STAY TRUE TO THE GOAL OF PROTECTING CLIENT'S FUTURE

Q+A