

# OBSERVATIONS

Tandem Investment Advisors | William “Billy” Little, Jr., CFA

April | 2021

## Financial Markets Review

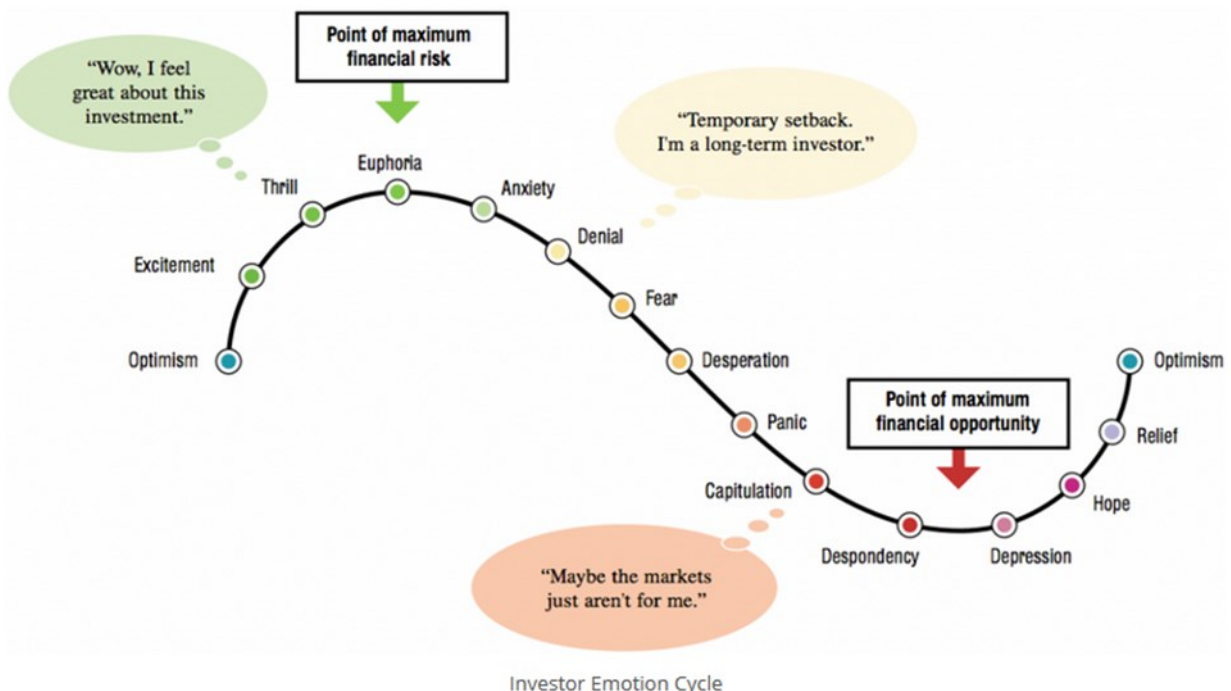
There is an awful lot to like about the direction of the U.S. economy and subsequently, U.S. equity markets. We are just a few days into April and the S&P 500 has gained 8.5% year-to-date, while the NASDAQ and Russell 2000 have climbed 6.4% and 10.1%, respectively.

With consumer confidence accelerating in March, the ISM manufacturing index hitting its highest level since 1983, and, most recently, non-farm payrolls rising by 916,000, there are plenty of reasons to be optimistic about the future. As the economy picks up steam, the Federal Reserve has pledged that they will let economic activity and any potential inflation run hot before even “thinking about thinking about raising rates.” Tack on the \$1.9 trillion stimulus bill that was just signed by President Biden, which put cash directly into consumers’ pockets, the recently proposed \$2.25 trillion infrastructure bill, the hint of another \$1.5-2 trillion stimulus package focused on family issues, education and healthcare, and what you get is a big ol’ liquidity party.

It is hard to imagine what could derail or even pause the equity rally at this time. Economic data points are accelerating, S&P 500 earnings estimates are consistently being revised higher and technicals are about as bullish as they can get with 95% of S&P 500 stocks trading above their 200-day moving average and the index at an all-time high. The backdrop and justification to invest in equities could not be easier or make more sense than it does today. And oddly enough, it is also the most prudent time to revisit your approach to, and tolerance for, risk. The picture below is a good reminder of how risk correlates with the investor emotion cycle.

Behavioral finance is a fascinating topic and likely not discussed enough when it comes to investing. Understanding the different behavioral biases and how they affect your decision making when it comes to money is just as important as what you actually invest in. Dr. Brad Klontz, a financial psychologist and Managing Principal of Your Mental Wealth Advisors, said it well:

*Continued on Page 2*



Source: <https://moderntimesinvestors.com/investor-emotion-cycle/>

*“As an investor, you need to have a fundamental understanding that you are wired to do the absolute wrong thing at every point in the process.”*

– Dr. Brad Klontz

We are all human and thereby susceptible to the different behavioral biases that cloud our decision making.

- Confirmation bias – tendency to interpret new evidence as confirmation of one’s existing beliefs or theories
- Hindsight bias – tendency for people to perceive past events as having been more predictable than they actually were
- Overconfidence bias – tendency to hold a false and misleading assessment of our skills, intellect or talent
- Self-control bias – tendency that causes people to fail to act in pursuit of their long-term overarching goals because of a lack of self-discipline in the short term
- Regret-aversion bias – tendency to refuse to make any decisions because of the fear that the decision will turn out to be wrong and then later lead to feelings of regret
- Recency bias – tendency to favor recent events over historic ones

This list of biases barely scratches the surface of what we all experience when making an investment decision. Ultimately, if we can limit the amount of “thinking” and approach an investment decision objectively, instead of emotionally, the better off we are likely to be. We made the choice a long time ago to manage money in a very disciplined, quantitative fashion. Investment decisions are made based on numbers and math, not emotions and personal beliefs. It is Tandem’s investment philosophy that allows us to remain grounded and rooted in our principles in times of despair, euphoria and everything in between.

## Tandem Strategy Update

Recently, I have been routinely asked a similar set of questions – “Is there any reason to sell stocks now?” and “Is there anything that could stop the stock market from continuing to go higher?”

The emotional side of me looks at everything I wrote in the first three paragraphs and confidently says... No!... to both questions! The obvious next question is then – “why did you sell Comcast (CMCSA), Expeditors International (EXPD), Lab Corp (LH), ExlService (EXLS) and UMB Financial (UMBF) this past month?” My answer – “Easy. Now let me explain.”

Unlike myself and every other human being on this planet our quantitative model does not suffer from any of the following biases: confirmation, overconfidence or regret-aversion. In fact, it does not suffer from any of the biases previously mentioned. Our model analyzes several different fundamental and valuation factors and signals whether a stock is over, under or fairly valued. Then our disciplines prescribe the action to be taken in our clients’ portfolios. If a stock is overvalued enough, we sell it. If it is deemed to be undervalued, we buy it. There is no hemming and hawing over whether we think it is the right decision. If we waived, then we would be doing you a disservice, since we would not be doing what we say. Just as it was not easy to buy a year ago in the face of significant unclarity, it is equally hard to sell given the clarity in markets and the economy today. Thankfully, we have a process to follow.

*Continued on Page 3*



## William “Billy” Little, Jr., CFA

Billy Little is a shareholder, Vice President and Portfolio Manager for Tandem Investment Advisors, Inc. Mr. Little began his career in the investment industry in 2004, as a Financial Advisor with Ameriprise Financial in Baltimore, Maryland. Mr. Little joined Tandem in 2006 where he directs Tandem’s quantitative research. He is a regular member of the CFA Institute and past President of the CFA Society South Carolina. Mr. Little graduated from the College of Charleston with a Bachelor of Arts in Business Administration with a concentration in Finance.

## Disclaimer

*This writing is for informational purposes only. The information contained in this writing should not be construed as financial or investment advice on any subject matter. Tandem Investment Advisors, Inc. does not represent that the securities, products, or services discussed on, or accessible through, this site are suitable for any particular investor. You acknowledge that your requests for information are unsolicited, and the provision of any information through this site shall not constitute or be considered investment advice, or an offer to sell, or a solicitation of an offer to buy any product, service, or security.*

*Past performance is no guarantee of future results. Indices are unmanaged and not available for direct investment. They are shown or referred to for illustrative purposes only and do not represent the performance of any specific investment. No data in this writing should be construed in any way as performance of any Tandem investment product. For complete performance information and disclosures, please contact John Carew at [jcarew@tandemadvisors.com](mailto:jcarew@tandemadvisors.com).*

*From time to time Tandem may discuss select purchases and/or sales within this report. All past portfolio purchases and sales are available upon request. Any portfolio transaction discussed here does not constitute advice or a recommendation. Please consult your financial advisor before making any investment decisions. For information regarding past purchases and sales, please contact John Carew at [jcarew@tandemadvisors.com](mailto:jcarew@tandemadvisors.com).*

