

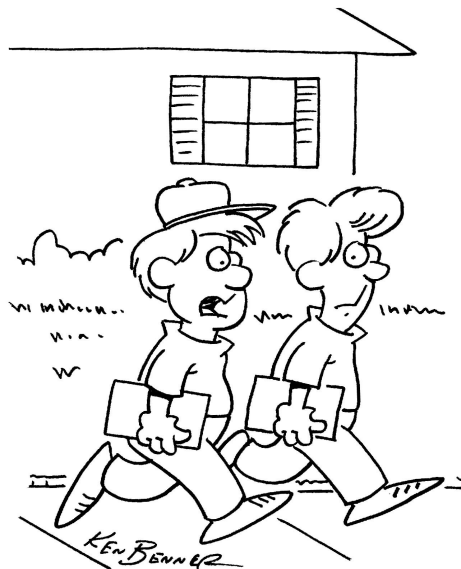


**PACIFICUS**  
CAPITAL MANAGEMENT

INVESTMENT OUTLOOK – NOVEMBER 2021

## In a Bull Market, Everyone is a Genius

*"It is difficult to get a man to understand something, when his salary depends on him not understanding it." - Upton Sinclair*



*"My Dad told me not to make the same mistakes he did. That doesn't leave much left!"*

CartoonStock.com

In a bull market, everyone is a genius. Since the March 2020 stock market lows financial assets, real estate, crypto currencies, and just about anything with perceived scarcity value, both real and virtual have gone up big time. Investors new to this game might think to themselves, "this investing business is easy." If so, they would be mistaken, as it is only a matter of time until the market usually takes back (and then some) what was too easily gained. Investors who make investments with little regard to risk are best described as fools – and a fool and his money will soon be parted.

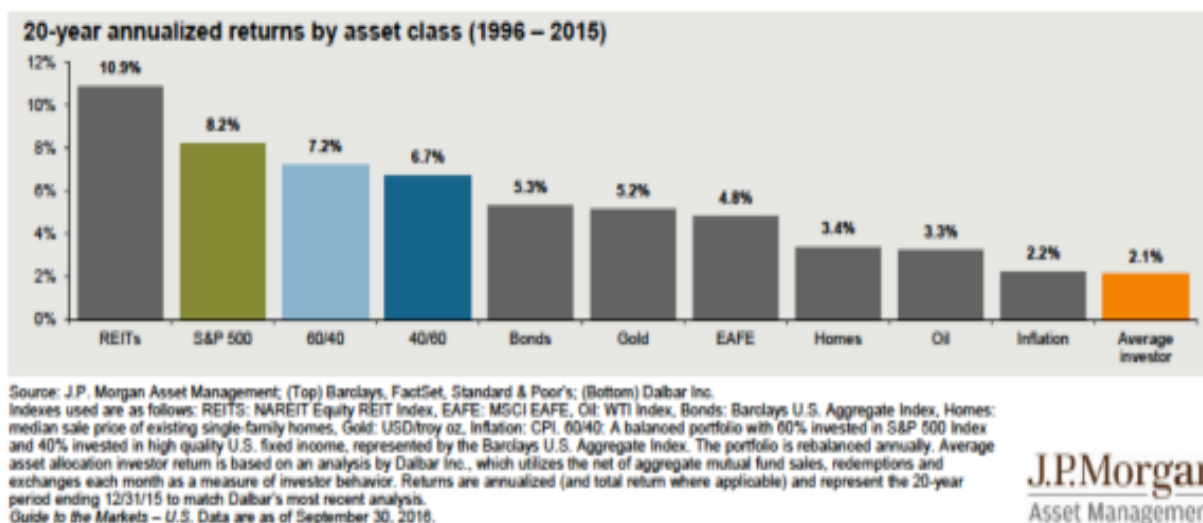
I was recently contacted out of the blue by a newly minted tech millionaire who was considering becoming a client. Usually, when a prospective client goes out of his/her

way to find me, there is a high likelihood that person is seriously interested in our services. With this recent encounter, I didn't get that feeling.

Instead, the fortunate gentleman who asked for the meeting, then asked why he should pay me to manage his investment portfolio, when he believed he could do a good job himself. I was caught a little off guard by his comment given he had reached out to me, however my response went something like this – “I'm sure you would do a fine job, as you seem smart and this investing game is not rocket science. For most people, respectable returns are achieved through discipline, control over one's emotions, intellectual curiosity, objectivity, and consistency.” Easy, right? In theory yes, in practice, no.

Putting aside the various reasons someone might procure other professionals to help them with say legal or health related matters – for some people, by the time they realize they could have benefitted from professional assistance, it might turn out to have been too little and too late. In certain scenarios they could find themselves in serious legal trouble, dealing with major health issues, or in the case of investment stewardship – they have blown everything they worked so hard for. The real value of professional investment management and advice pays off when things go dark, not when everything is rosy.

At Pacificus, our sole objective as investment managers and advisers is to help our clients achieve their financial goals. This entails managing investment risk, achieving good risk-adjusted returns through high level portfolio management, coaching when necessary, and listening to our clients. Unfortunately, the average investor over the years has fallen short of their modest return objectives, as illustrated by the J.P. Morgan chart below. My guess is this has far more to do with a lack of discipline and probable emotional responses to difficult market conditions, more than anything else.



The above, let's say not so subtle warning was inspired by a recent Wall Street Journal article, "Rich Millennials To Financial Advisers: Thanks for the Golf Invite, But You Can't Invest My Money." One of the main subjects of the article has 90% of his liquid assets in crypto currencies. He is either going to become unbelievably rich (low probability) or eventually lose a large chunk of his fortune over time (more likely). Don't be this guy – the probabilities are not in your favor.

\*\*\*\*\*

### **Rich Millennials to Financial Advisers: Thanks for the Golf Invite, but You Can't Invest My Money**

*Wealthy young investors don't see much use for the wealth-management firms their parents rely on. They would rather pick their own stocks or plow their money into crypto.*

By Rachel Louise Ensign and Peter Rudegeair  
The Wall Street Journal  
November 8, 2021

Michael Martocci, a 26-year-old startup founder, ignores the golf invitations and other solicitations from the Goldman Sachs Group Inc. financial adviser trying to land him as a client.

Eighteen holes isn't particularly appealing to the Miami-based Mr. Martocci, and neither is paying for financial advice. Instead, he oversees his hundreds of thousands of dollars in investments himself. He funnels 90% of his money into cryptocurrency. To check his stocks, he pulls up Robinhood Markets Inc. on his phone.

"It's easy to manage \$500,000, \$1 million yourself," said Mr. Martocci, who says he spends less than an hour a week monitoring his investments.

More rich young investors are opting to go without a traditional financial adviser. Instead, they are betting they can get good-enough investment options from do-it-yourself digital platforms that are cheap and easy to use. Many also want to invest in riskier assets, like cryptocurrencies and tech startups, that mainstream advisers often don't offer.

About 70% of households with a net worth of \$500,000 or more headed by a person under 45 had an investing style that was either strongly or mostly self-directed in 2019, up from 57% in 2010, according to an analysis of Federal Reserve data by research firm AiteNovarica Group. Nearly half of those households aimed to take an above-average level of risk in exchange for an above-average rate of return, up from 35% in 2010, the analysis found.

The wealth-management businesses at top firms like Morgan Stanley and Bank of America Corp.'s Merrill Lynch continue to mint profits with moneyed older clients. But competition from digital upstarts is growing, and traditional firms know they need to attract the next generation of lucrative customers.

Advisers say they do far more than just put a client's money into stocks and bonds. They can help clients map out financial goals and prevent them from making rash decisions. They can also handle complex portfolio rebalancing and tax planning for busy professionals.

Merrill said it has diversified its adviser force and improved its technology. People under 45 made up 20% of new clients this year, up from 10% five years earlier, the firm said. Morgan Stanley has spent billions in recent years buying firms that it hopes will help it attract younger clients, like online broker E\*Trade and employee-stock-plan administrator Solium.

Wealth-management firms also offer clients special access to some alternative investments, such as funds tied to private equity. But many either restrict or ban crypto investments and provide limited access to shares in pre-IPO companies.

Big firms are wagering that reluctant young people may hire an adviser when they are older. "When you start to go from the wealth accumulation phase to the retirement phase, the world gets much more complicated," said Jed Finn, chief operating officer of Morgan Stanley Wealth Management and head of corporate and institutional solutions. "People don't think they need advice until they need advice."

Studies suggest that advisers can get caught up in chasing hot stocks, much like individual traders. During the 2008-09 financial crisis, financial planners often sold their clients' stocks as the market fell. Still, when markets are rising as they are now—U.S. stock indexes have hit records this year—it is easy for professional and amateur investors alike to look smart.

When Travis Chambers, 33, landed a \$9 million windfall from selling part of his advertising agency this year, he interviewed four financial advisers over video. He thought they put too little effort into explaining how their investments were unique and worth the fees. And none of them brought up crypto or real estate, the investments that most interested him.

Mr. Chambers, who lives in Boise, Idaho, decided to strike out on his own. He put \$1 million into a hedge fund run by his business partner's neighbor. He earmarked another \$1.5 million to build offbeat Airbnb rentals in low-income areas. One project involves building futuristic huts in a dry lake bed in Utah.

U.S. Bancorp recently offered to give Mr. Chambers a personal line of credit at a 2.75% interest rate if he puts \$1 million into a brokerage account.

Mr. Chambers is considering the offer but would keep managing most of his money on his own. He expects he would use the credit line to buy cars and a plane, which he thinks will increase in value.

When Cabell Hickman turned 18, her stepfather gave her money to buy stocks. He later invited her to invest alongside him in private companies. A few years ago, she put \$100,000 into a blockchain fund run by a friend she met in college. Now 26, she is managing her own \$6 million portfolio.

Her stepfather died last year, leaving Ms. Hickman a complex estate, and for the first time she is considering hiring a professional financial adviser.

Ms. Hickman, a higher-education consultant, said she has found some good if homogeneous options: "I'm talking to, frankly, a bunch of old men."

Mr. Martocci, who has been dodging the Goldman adviser, has most of his wealth tied up in his company, SwagUp. It creates and distributes branded items like tote bags and coffee mugs.

He said that at this point in life, he prefers risky investments that could potentially double or triple his money over those promising "market type returns."

"Most young people don't really care about the downside," Mr. Martocci said. "They care about the upside and it being this fun thing." He plans to use a financial adviser, he said, if he gets a windfall from selling the company.

\*\*\*\*\*

On financial markets I haven't changed my view much. Going into year-end markets will be firing on all cylinders. This means most everything should continue higher. Bonds, both on the short-end and longer-end of the yield curve may see a continuation of the recent short-term downside pressure, but ultimately, interest rates will prove to be capped at an upper bound – particularly at the long-end of the yield curve. If the Fed succumbs to pressure and raises the Fed Funds target rate sooner than expected (I believe the market is pricing in hikes beginning in June 2022), then in this instance longer term rates could counter-intuitively drop, as the market prices in lower future growth and inflation, along with a policy error.

All eyes on the Fed. They hold the keys to the market's trajectory over the coming months

<b>ASSET CLASS &amp; SECTOR OPINIONS</b>		
<b>OVERWEIGHT</b>	<b>NEUTRAL</b>	<b>UNDERWEIGHT</b>
<b>U.S. Real Estate &amp; Related Equities</b>	<b>Communication Services Sector</b>	<b>Small Capitalization Stocks</b>
<b>Large Capitalization Technology</b>	<b>Leisure &amp; Hospitality</b>	<b>Financial Services Sector</b>
<b>Consumer Discretionary Sector</b>	<b>Gold &amp; Gold Miners</b>	<b>Consumer Staples</b>
<b>Healthcare Biotech &amp; Pharmaceuticals</b>	<b>Mortgage Backed Securities</b>	<b>Materials Sector</b>
<b>Aerospace &amp; Defense</b>	<b>Local Currency EMG Bonds</b>	<b>Leverage Loans (Floating Rate Debt)</b>
<b>Emerging Markets Equities</b>	<b>High Yield Corporate Bonds</b>	<b>Treasury Inflation Protection Securities</b>
<b>U.S. Treasury Notes &amp; Bonds</b>	<b>Energy Related Equities</b>	
<b>Investment Grade Corporate Bonds</b>	<b>International Developed Market Equities</b>	

Sincerely,  
Justin Kobe, CFA  
Founder, Portfolio Manager & Adviser  
Pacificus Capital Management



Advisory services through Cambridge Investment Research Advisors, Inc., a Registered Investment Adviser. Securities offered through Registered Representatives of Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC. Cambridge and Pacificus Capital Management are not affiliated.

Material discussed is meant for general illustration and/or informational purposes only, and it is not to be construed as investment, tax, or legal advice. Although the information has been gathered from sources believed to be reliable, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice. These are the opinions of Justin Kobe and not necessarily those of Cambridge Investment Research, are for informational purposes only, and should not be construed or acted upon as individualized investment advice. Investing in the bond market is subject to risks, including market, interest rate, issuer credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies is impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and the current low interest rate environment increases this risk. Current reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Diversification and asset allocation strategies do not assure profit or protect against loss.