SCHLINDWEIN ASSOCIATES
INVESTMENT COUNSEL

# 25

25 years ago Schlindwein Associates launched with a clear mission – to help clients reach their financial goals. Experience and expertise gained over the prior twenty-six years served as the firm's foundation. It was an entrepreneurial undertaking with nary a client to serve. One-by-one and primarily through word-of-mouth, clients found their way to us. These votes of confidence are humbling for the trust they reflect in our team and our work. Serving clients' best interests with no conflicts has been an unwavering principle from the beginning and will remain so for all time. In 1995, one could not have imagined all the events of the next 25 years. A review can provide some perspective for investing yet ahead.

## PERSPECTIVE

A lot can change in 25 years, and many important developments were not even imagined in 1995 – Tech Bubble . . . 9/11 . . . A President Obama . . . Uber . . . Smart Phone . . . ISIS . . . A President Trump . . . Social Media . . . COVID-19. Changes in some familiar markers are shown in Table I. It was a good quarter century for stock investors. The Dow Jones Industrial Average provided an annualized return of +9.8%. Owing to a dramatic decline in yield levels, the taxable U.S. bond market annualized return was a respectable +5.3%. The sizable increase in the price of oil understates the extreme swings in price along the way. Inflation drifted lower reflecting in part the impacts of technology and global trade. Also growing over 25 years were debt levels, particularly among governments and exacerbated recently by the Coronavirus pandemic.

Three consequential recessions occurred and influenced the course of financial markets. They added periods of uncertainty, volatility, retrenchment and subsequent recovery for stock and bond markets alike as plotted in Chart I. Stock markets experienced three notable bear markets and several market corrections over this time. Successful investing required a steady hand and an ability to remain invested through periods of turbulence. The secular decline in bond yields was declared at an end more than once, only to be proven incorrect. The return for bond investors was favorable over this time, but resulting low interest rates now challenge investors with income needs.

Notable changes in the investment industry over the past 25 years include the shift from actively managed mutual funds to index funds generally and exchange-traded funds ("ETFs") specifically. Actively managed funds still hold 60% of investor assets, but the relative growth of both index funds and ETFs has been remarkable and continues as shown in Chart II. ETFs in particular have moved from being a novelty with the first U.S. fund launch in 1993 to a mainstay in many diversified portfolios. A model portfolio in 1995 may have had up to 20% invested in index funds with no investments in ETFs. Today, that same model may have in excess of 50% invested in ETFs as available mandates have broadened and include more specialized funds. In addition, ETFs have come "full circle" with some funds actively managed as well.

## INVESTMENT IMPLICATIONS

Much changes in 25 years and investing must adapt accordingly. Diversification remains a key principle in portfolio management. Marketplace changes may shift strategy but not principle. What has not changed is the need to clearly identify the unique goals, horizons and risk tolerance of each client, to manage each client's investments prudently, and to be there for each client. It is a privilege to serve.

TABLE I

**THEN & NOW***

| | 1995 | 2020 |
|---|---|---|
| DOW JONES INDUSTRIAL AVERAGE | 4,789 | 27,782 |
| 10-YEAR U.S. TREASURY YIELD | 6.2% | 0.7% |
| OIL (WTI/per Barrel) | $17.54 | $40.05 |
| INFLATION (12 Mos. CPI) | 2.5% | 1.3% |
| U.S. DEBT/GDP | 65% | 98% |

*Nearest data to September 30

CHART I

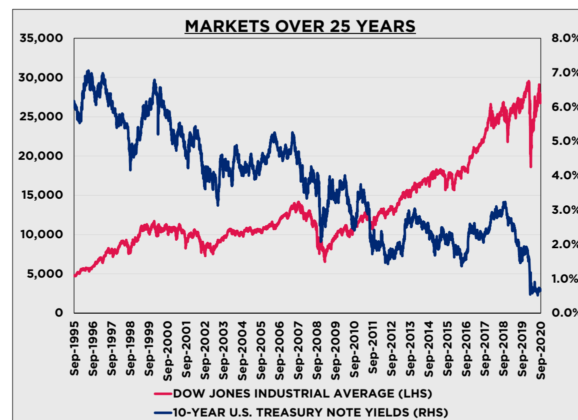
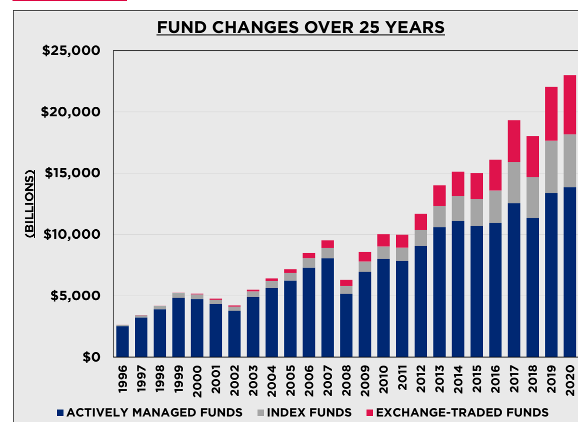



CHART II

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