

# INVESTMENT UPDATE

April 2017

## Saltmarsh

Financial Advisors, LLC

AN AFFILIATE OF SALTMARSH, CLEVELAND & GUND

### Inside This Issue:

#### Page 1 - 2 :

Investment  
Shock Absorbers

#### Page 2 - 4 :

Going Global: A Look  
at Public Company Listings

### News Center

Saltmarsh will host the 2nd annual Pensacola Business Leaders Funnel (PBLF) on May 10. This year's topics include the importance of investing in your company's culture, the local economic development landscape and changing political climate.

If you have an interest in attending, please visit: [saltmarshcpa.com/PBLF](http://saltmarshcpa.com/PBLF)

## Investment Shock Absorbers

by Jim Parker, Vice President DFA Australia Limited

Ever ridden in a car with worn-out shock absorbers? Every bump is jarring, every corner stomach-churning, and every red light an excuse to assume the brace position. Owning an undiversified portfolio can trigger similar reactions.

In a motor vehicle, the suspension system keeps the tires in contact with the road and provides a smooth ride for passengers by offsetting the forces of gravity, propulsion, and inertia.

You can drive a car with a broken suspension system, but it will be an extremely uncomfortable ride and the vehicle will be much harder to control, particularly in difficult conditions. Throw in the risk of a breakdown or running off the road altogether and there's a real chance you may not reach your destination. In the world of investment, a similarly bumpy and unpredictable ride can await those with concentrated and undiversified portfolios or those who constantly tinker with their allocation

based on a short-term rough patch in the markets.

Of course, everyone feels in control when the surface is straight and smooth, but it's harder to stay on the road during sudden turns and ups and downs in the market. And keep in mind the fix for your portfolio breaking down is unlikely to be as simple as calling a tow truck.

For that reason, the smart thing to do is to diversify, spreading your portfolio across different securities, sectors, and countries. That also means identifying the right mix of investments (e.g., stocks, bonds, real estate) that aligns with your risk tolerance, which helps keep you on track toward your goals.

Using this approach, your returns from year to year may not match the top performing portfolio, but neither are they likely to match the worst. More importantly, this is a ride you are likelier to stick with.

*(Continued on Page 2)*



**Gregg Noble, Managing Member**

gregg.noble@saltmarshfa.com  
(850) 435-8300  
www.saltmarshfa.com



**Christina Doss, Managing Director**

christina.doss@saltmarshfa.com  
(850) 435-8300  
www.saltmarshfa.com

# Investment Shock Absorbers

*(Continued)*

Just as drivers of suspensionless cars change their route to avoid potholes, people with concentrated portfolios may resort to market timing and constant trading as they try to anticipate the top-performing countries, asset classes, and securities.

Here's an example to show how tough this is. Among developed markets, Denmark was number one in US dollar terms in 2015 with a return of more than 23%. But a big bet on that country the following year would have backfired, as Denmark slid to bottom of the table with a loss of nearly 16%.<sup>1</sup>

It's true that the US stock market (by far the world's biggest) has been a strong performer in recent years, holding the number three position among developed markets in 2011 and 2013, first in 2014, and sixth in 2016. But a decade before, in 2004 and 2006, it was the second worst-performing developed market in the world.<sup>1</sup>

Predicting which part of a market will do best over a given period is also tough. For example, while there is ample evidence to support why we should expect positive premiums from small cap, low relative price, and high profitability stocks, these premiums are not laid out evenly or predictably across the map. US small

cap stocks were among the top performers in 2016 with a return of more than 21%.

A year before, their results looked relatively disappointing with a loss of more than 4%. International small cap stocks had their turn in the sun in 2015, topping the performance tables with a return of just below 6%. But the year before that, they were the second worst with a loss of 5%.<sup>2</sup>

If you've ever taken a long road trip, you'll know that conditions along the way can change quickly and unpredictably, which is why you need a vehicle that's ready for the worst roads as well as the best. While diversification can never completely eliminate the impact of bumps along your particular investment road, it does help reduce the potential outsized impact that any individual investment can have on your journey.

With sufficient diversification, the jarring effects of performance extremes level out. That, in turn, helps you stay in your chosen lane and on the road to your investment destination.

Happy motoring and happy investing.

1. In US dollars. MSCI developed markets country indices (net dividends). MSCI data © MSCI 2017, all rights reserved.

2. In US dollars. US Small Cap is the Russell 2000 Index. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. International Small Cap is the MSCI World ex USA Small Cap Index (gross dividends). MSCI data copyright MSCI 2017, all rights reserved.

## Going Global: A Look at Public Company Listings

Trivia time: how many stocks make up the Wilshire 5000 Total Market Index (a widely used benchmark for the US equity market)? While the logical guess might be 5,000, as of December 31, 2016, the index actually contained around 3,600 names. In fact, the last time this index contained 5,000 or more companies was at the end of 2005.<sup>1</sup> This mirrors the overall trend in the US stock market. In the past two decades there has been a decline in the number of US-listed, publicly traded companies. Should investors in public markets be worried about this change? Does this mean there is a material risk of being unable to achieve an adequate level of diversification for stock investors? We believe the answer to both is no. When viewed through a global lens, a different story

begins to emerge—one with important implications for how to structure a well-diversified investment portfolio.

### U.S. AGAINST THE WORLD

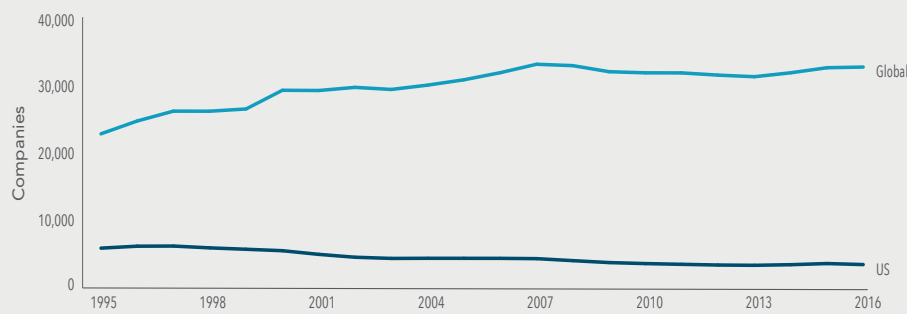
When looked at globally, the number of publicly listed companies has not declined. In fact, the number of firms listed on US, non-US developed, and emerging markets exchanges has increased from about 23,000 in 1995 to 33,000 at the end of 2016. (See **Exhibit 1 on the following page.**)

It should be noted, however, that this number is substantially larger than what many investors consider to be an investable universe of stocks. For example, one well-known global benchmark, the MSCI All Country

# Going Global: A Look at Public Company Listings

(Continued)

Exhibit 1: Number of Publicly Listed Companies



Source: Bloomberg.

studies have explored possible reasons for this change. One line of investigation considered if changes in the regulatory environment for listed companies in the US relative to other countries may explain why there are fewer listed firms. Another considered if, since the 2000s, private companies have had a greater propensity to sell themselves to larger companies rather than list themselves. In either case, the

World Index Investable Market Index (MSCI ACWI IMI) contains between 8,000 and 9,000 stocks. This index applies restrictions for inclusion such as minimum market capitalization, volume, and price. For comparison, the Dimensional investable universe, at around 13,000 stocks, is broader than the MSCI ACWI IMI.

implication for investors based on the numbers alone is clear—the number of publicly listed companies around the world has increased, not decreased.

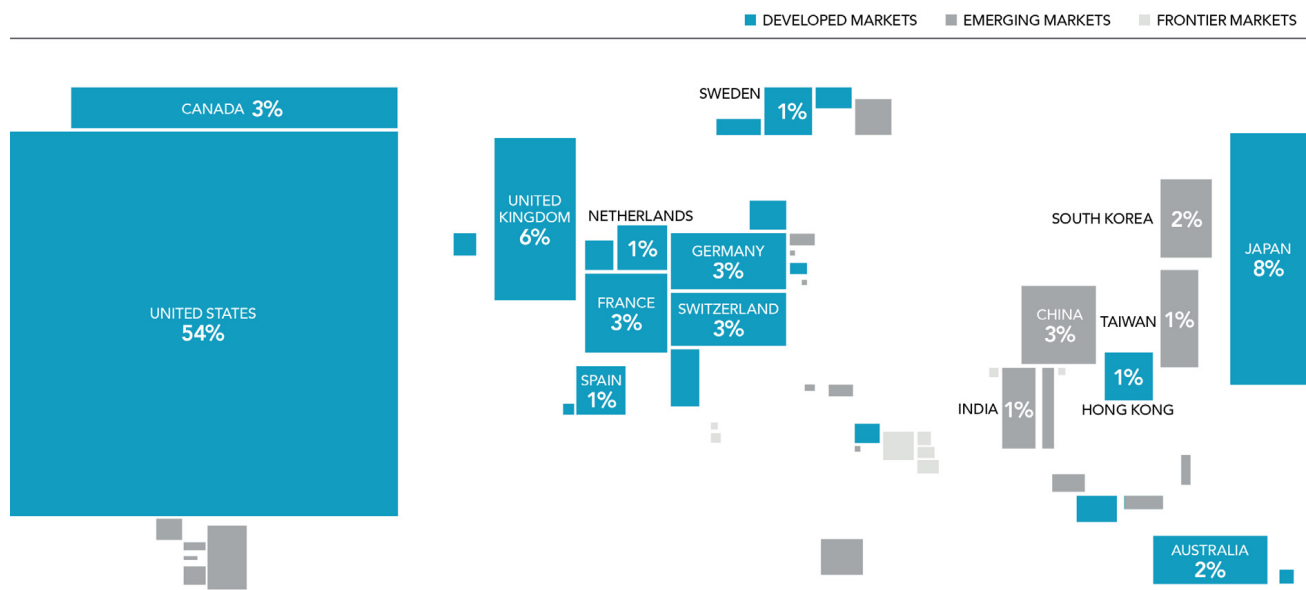
While it is true that in the US there are fewer publicly listed firms today than there were in the mid-1990s (a decrease of about 2,500), it is clear that the increase in listings both in developed markets outside the US and in emerging markets has more than offset the decline in US listings. Although there is no consensus about why US listings have decreased over this period of time, a number of academic

## A GLOBAL APPROACH

In the US, with thousands of stocks available for investment today, it is unlikely that this change will meaningfully impact an investor's ability to efficiently pursue equity market returns in broadly diversified portfolios. It is also important to note that a significant fraction of the publicly available global market cap remains listed on US exchanges. As noted in **Exhibit 2 below**, the weight of the US in the global market is approximately 50–55%. For comparison, it was approximately 40% in 1995.

(Continued on Page 4)

Exhibit 2: Percent of World Market Capitalizations as of December 31, 2016



Data provided by Bloomberg. Market cap data is free-float adjusted and meets minimum liquidity and listing requirements. Many nations not displayed. Totals may not equal 100% due to rounding. China market capitalization excludes A-shares, which are generally only available to mainland China investors.

# Saltmarsh

Financial Advisors, LLC

AN AFFILIATE OF SALTMARSH, CLEVELAND & GUND

Saltmarsh Financial Advisors  
900 North 12<sup>th</sup> Avenue  
Pensacola, Florida 32501  
Toll Free: 800-477-7458

Email:

gregg.noble@saltmarshfa.com  
christina.doss@saltmarshfa.com  
george.peaden@saltmarshfa.com  
beth.lumpkin@saltmarshfa.com

## Going Global: A Look at Public Company Listings (Continued)

For investors looking to build diversified portfolios, the implications of the trend in listings are also clear. The global equity market is large and represents a world of investment opportunities, nearly half of which are outside of the US. While diversifying globally implies an investor's portfolio is unlikely to be the best performing relative to any one domestic stock market, it also means it is unlikely to be the worst performing. Diversification provides the means to achieve a more consistent outcome and can help reduce the risks associated with overconcentration in any one country. By having a truly global investment approach,

investors have the opportunity to capture returns wherever they occur.

### CONCLUSION

While there has been a decline in the number of US-listed, publicly traded companies, this decline has been more than offset by an increase in listings in non-US markets. While the reasons behind this trend are not clear, the implications for investors today are clearer—to build a well-diversified portfolio, an investor has to look beyond any single country's stock market and take a global approach.

---

1. Source: Wilshire Associates.

---

*Investment Shock Absorbers* - Past performance is no guarantee of future results. There is no guarantee an investing strategy will be successful. Diversification does not eliminate the risk of market loss. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2017, all rights reserved. All expressions of opinion are subject to change. This article is distributed for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services. Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission. ©2017 Dimensional Fund Advisors LP. All rights reserved. Unauthorized copying, reproducing, duplicating, or transmitting of this material is prohibited.

*Going Global: A Look at Public Company Listings* - Past performance is no guarantee of future results. There is no guarantee an investing strategy will be successful. Diversification does not eliminate the risk of market loss. Investing risks include loss of principal and fluctuating value. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. All expressions of opinion are subject to change. This article is distributed for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services. Indices, such as the MSCI All Country World Index Investable Market Index (MSCI ACWI IMI) are not available for direct investment. Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.