WINTRUST
WEALTH MANAGEMENT

GUIDANCE

An Investing History Lesson

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Look back ten years ago for a moment. It is the start of 2007. George W. Bush is president, the Dow Jones Industrial Average is at 12,400, the Fed Funds rate is 5.25%, and financial confidence is high. Anyone owning a house is feeling wealthy as home values continue to ascend.

By June, the Dow passes 13,000 and as summer weather arrives, groundbreaking on the Chicago Spire begins. This skyline-changing symbol of wealth and prosperity is planned to rise above all. Then Steve Jobs unveils the first iPhone—a life-changing product that would connect everyone, change industries, and empower the consumer.

In the month of August, the sports world sees Tiger Woods claims his 13th major championship and Barry Bonds hit his 756th home run to surpass Hank Aaron's 33-year-old career record. In September, the Dow passes 14,000 and "Dow 20,000" becomes a media-fueled catch phrase. The year 2007 seems like a party. Not a dot-com internet party circa 1999, but a real one. A party largely based on real estate that everyone at the time presumes never goes down in value. Buy a big house, buy stocks, and then buy another house; this is normal thinking for much of 2007.

October would see the stock market reach all-time highs with the Dow closing at 14,164 and the S&P 500 Index closing at 1,565 on October 9th. Little did anyone know, it would mark the beginning of the 2008 Financial Panic. As such, October 9, 2007 can easily be considered one of the worst days in history to have bought stocks. This was only ten years ago. Do you remember it all? Do you remember what financial moves you made? Were they moves based on facts, or moves motivated by greed or fear?

The Dow and S&P 500 indices would go on to lose over half their value over the next 17 painful months until finally bottoming out on March 9, 2009. For most, the thought of recovering the wealth that vanished at that point seemed impossible. Everything about our economy—even capitalism itself—was questioned.

The cause of the collapse, the basis for recovery, and how things supposedly changed as a result are debated by leading economists even today. But for investors, the more important matter to consider regarding these events is the behaviors and decisions that were made to either contribute to, or detract from, investment success. Imagine if, on that day 10 years ago, you knew what the future held. You knew that large financial firms would disappear and others would be taken over by the government; that unemployment would hit 10%, and the deepest recession since the crash of 1929 would unfold. With this knowledge, where would you have put your

Continued on page 3

WINTER 2017 | Volume 85, Issue 4

Good Apples Don't Just Fall From Trees

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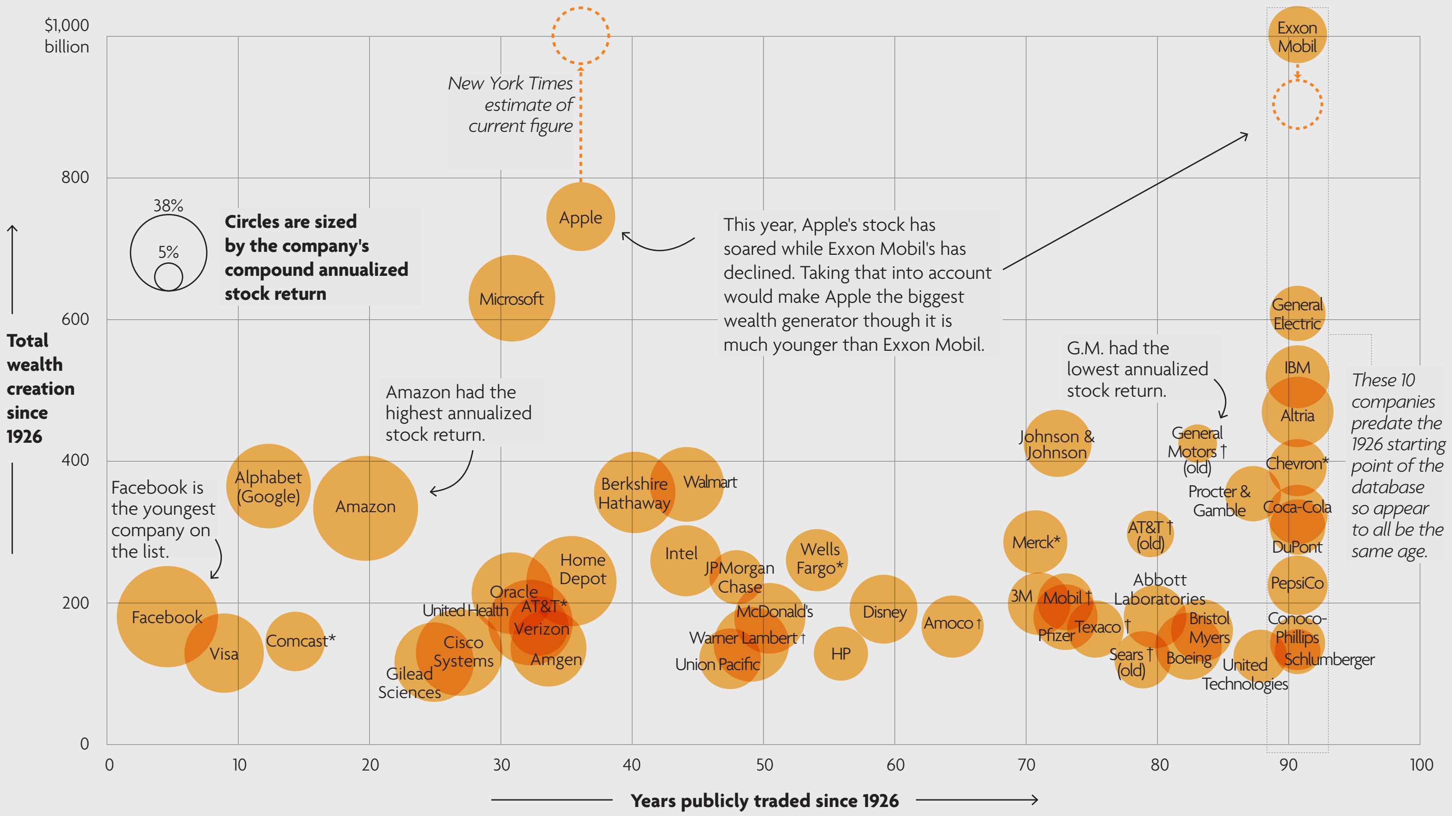
According to a recent study of stock market returns, Apple has generated more profit for investors than any other American company in the history of the markets since 1926.[1] The study's data suggest that the total wealth that Apple has created for its shareholders exceeds the current value of one-month U.S. Treasury bills—more than $1 trillion—and as the graphic shows, all this was done in a period spanning less than 40 years.

While this is an interesting finding, another observation in the study offers even greater insight into equity investing: the entire net wealth earned by investors from all publicly traded stocks since 1926 has been produced by only four percent of those stocks. That means, as Barry Ritholtz of Bloomberg notes, "Only one in 25 companies are responsible for all stock market gains. The other 24 of 25 stocks—that's 96 percent—are essentially worthless ballast." [2]

Ritholtz (an avid proponent of passive, index investing) argues that it is too difficult to develop an active approach to investing that will allow you to "pick" the one in 25 stocks needed to generate market returns, or to find an active manager who can do so. Of course he is being simplistic—the "other" 96% is comprised of both winners and losers, and a manager who can pick more winners than losers can also outperform a market index. At Great Lakes Advisors, we believe we have the investment philosophy, process, and experience to do just that. To borrow Ritholtz's words, we think we have developed a methodology to identify those rare companies that will generate outsized returns over time.

But perhaps the most important aspect of this whole discussion is the element of time. The study covers more than 90 years of investing experience. Even the most patient of long-term investors may not have that long to demonstrate their investment management prowess. However, many, including us, do manage portfolios with a truly long-term focus—an approach that we stand behind but which appears to have gone out of style in the last several years.

The 50 Companies That Created the Most Wealth from 1926 to 2016



Notes: Wealth creation is total stock gains, including dividends, in excess of one-month Treasury bill returns. Company listing follows the guidelines of the Center for Research in Security Prices. Companies that are new iterations are marked with an asterisk*. Companies that no longer trade are marked with a dagger †. Source: Prof. Hendrik Bessembinder (W. P. Carey School of Business at Arizona State University), By Karl Russell/The New York Times

The investment management business has grown increasingly competitive since the 2008-09 downturn, while the Federal Reserve has used monetary policy to engineer a rebound in asset values (led by equities) for more than nine years. U.S. equities have gained more than 250% since the March 2009 lows, yet many active managers have underperformed their equity index benchmarks. The pressure on many investors to "beat the market" has also grown more intense, fueled in many cases by the financial media, consultants, and others whose focus has become shorter and shorter in duration.

As Baupost Group founder Seth Klarman says: "Most of our competitors feel intense pressure from their clients to generate short-term performance and have trouble maintaining a truly long-term perspective, whether in bad markets or good...Our ability to stay the course and move in a decisive and concentrated way into the most attractive areas of opportunity was enormously important during the 2008-2009 financial crisis, as many of our competitors pulled back from making new investments after sustaining significant losses. We, by contrast, were able to consistently add to positions that were becoming increasingly attractive. We expect that this same value discipline and long-term focus will help us avoid getting caught up in market bubbles that most competitors simply cannot resist, while serving us well in future pockets of turbulence." [3]

We are confident that a truly long-term investment horizon, married to our disciplined investment methodology, should produce satisfying returns to our equity investors over time. We are determined to hold onto that long-term horizon, even in the face of increasing short-term pressures, for it may be the most important variable in deciding the success or failure of an active manager.

We at Great Lakes Advisors may not identify the next Apple, Exxon Mobil, or Microsoft, and we will likely never hold a stock for 40 years. However, we are confident that a truly long-term investment horizon, married to our disciplined investment methodology, should produce satisfying returns to our equity investors over time. We are determined to hold onto that long-term horizon, even in the face of increasing short-term pressures, for it may be the most important variable in deciding the success or failure of an active manager. ■

1. Study conducted by Bessembinder, Hendrik of the W.P. Carey School of Business at Arizona State University
2. Ritholtz, Barry "So Few Market Winners, So Much Dead Weight," *Bloomberg View*, September 26, 2017
3.Klarman, Seth, "Seth Klarman Cash Return: Time To Sell?" Web blog post. *ValueWalk*, September 13, 2017

INVESTING HISTORY LESSON

Continued from page 1

money? Would you have invested in stocks or bonds, or perhaps cash? Would you have invested in real estate? Perhaps you would have put your money under the mattress.

What would have happened if you had bought stocks 10 years ago, on October 9, 2007—one of the worst days to do so since the Great Depression? With a decade of results available, we can see what would have come of this terribly unlucky timing. An investment in the S&P 500 index on that day would have 'suffered' a 7.2% annualized return over the next 10 years.[1] That is correct: *up* 7.2% per year.

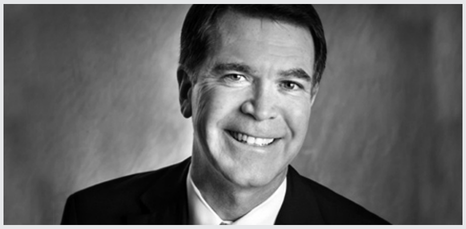
It is easy to discuss in hindsight what should have been done. Nonetheless, sitting tight and doing nothing would have resulted in temporary, albeit severe, paper losses, but not permanent losses. Of course, doing so would have been easier said than done considering what was happening at the time. It certainly was not the first major bear market; it was just the most recent. The dot-com crash that began in March of 2000 resulted in a 49% pullback for the S&P 500. Black Monday—the crash on October 19, 1987—saw a 22% decline which would be equivalent to a 5,100 point drop in the Dow today. There have been others, and there will certainly be more to come.

Attempting to predict the exact timing of the next market pullback and completely avoid a downturn is folly. However, by interpreting information appropriately and unemotionally to take advantage of opportunities and minimize downside risk, disciplined investors have been handsomely rewarded over the past decade. For those not so fortunate, the key going forward is to learn from past behaviors and avoid repeating previous mistakes, especially during times of stress.

Whether it is a sale for a tax benefit, investing cash at attractive prices, or possibly just sitting tight, in the land of opportunity there is always investment opportunity, in every market climate. ■

1. Annualized returns assume reinvestment of dividends.

Winter 2017 Economic Outlook



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Written October 9, 2017

Equity markets sailed through the third quarter seemingly unfazed by the words and actions of "Little Rocket Man," the "Dotard," or Mother Nature. Perhaps Janet Yellen's voice trumps them all, as the Federal Reserve's clear signaling of future monetary policy, bolstered by several indicators suggesting economic activity is picking up, was well received by investors around the globe.

The broader U.S. equity market, represented by the S&P 500, gained 4.5% and closed at an all-time high; it is now up 14.2% year to date. Global equity markets were led in the third quarter by Brazil (+22%), Russia (+16%), and Italy (+12%). In fact, most global equity indices gained ground in the quarter, and also remain at or near all-time high levels. Year-to-date, most European markets have gained more than 25%, as have China and Brazil.

The Trump Administration has thus far failed to bring any meaningful legislative changes to bear in the United States.

Oil prices jumped almost 10% in the quarter, driving the Energy sector up nearly 7%. Natural gas prices, however, declined. The broad fixed income market posted gains for the third quarter, with the Investment Grade Corporate, High Yield, and Municipal sectors performing the best. The yield on 10-year U.S. Treasury Notes ended the quarter at 2.33%—up only slightly from the end of the second quarter—but well off its early September lows of 2.04%.

The Trump Administration has thus far failed to bring any meaningful legislative changes to bear in the United States. Having failed several times at repealing and replacing the Affordable Care Act, they now move on to the subject of taxes. The stated objectives of the Administration's tax proposals are to reduce the corporate tax burden, close loopholes, and provide relief to American taxpayers. These are all noble objectives, but early indications suggest that the cost of achieving them may simply be unsustainable in a country already carrying more than $20 trillion in debt. While U.S. equity markets are not inexpensive by any measure, it is also true that the economy is in a unique position of solid growth and contained inflation. Though valuation will serve as a regulator, there is no reason late-cycle stock price appreciation cannot persist in the near-term. ■

ESTIMATED ECONOMIC VARIABLES AND INTEREST RATES

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Real GDP	2.20%	2.30	2.50	2.40	2.30
Consumer Price Index	1.80%	1.70	1.60	2.00	2.10
3-month Treasury Bill	1.33%	1.52	1.68	1.86	2.00
10-year Treasury Note	2.33%	2.42	2.51	2.61	2.74
Unemployment	4.30%	4.30	4.20	4.20	4.20

Source: Bloomberg