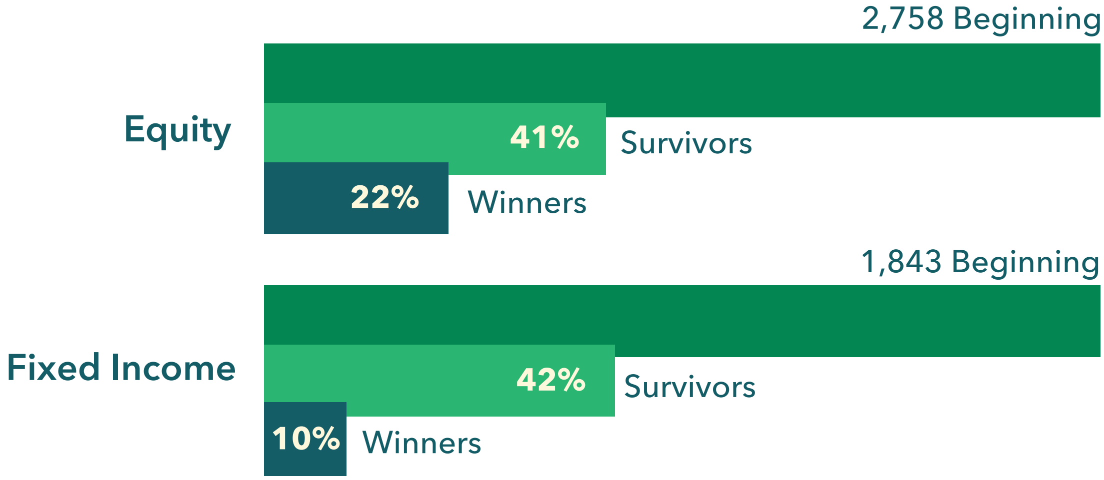
Avoiding Investment Fads

Investment fads are popular crazes that are characterized by excessive enthusiasm for a certain type of investment that often proves to be unsustainable over the longer-term. As Nobel Laureate Eugene Fama said, "There's one robust new idea in finance that has investment implications maybe every 10 or 15 years, but there's a marketing idea every week."

Investment fads are often confused with investment trends, yet trends tend to persist over the longer-term and are usually based on fundamentals rather than enthusiasm. While it is possible to make money on investment fads, like any other investment based on market timing, it can be very risky. Market history has taught us that it is time in the market, not market timing, that gives us the opportunity to achieve our investment goals. While it might be tempting to seek out the seemingly latest and greatest investment, we know that a short-term investment approach can be counterproductive.

As we look back over decades, we see that investment funds come and go. In the 1960s and early 1970s, we had the "Nifty Fifty", a catchy phrase that represented a compilation of fifty stocks. From the mid 1980s to the mid 1990s, attention was focused on the rising "Asian Tigers" of Hong Kong, Singapore, South Korea and Taiwan. Then from 2000 to 2005, we saw the emergence of the "BRIC" countries of Brazil, Russia, India and China.

U.S. Based Mutual Fund Performance
2000 – 2019



Source: Dimensional Fund Advisors
The sample includes funds at the beginning of the 20-year period ending December 31, 2019. Each fund is evaluated relative to its respective primary prospectus benchmark as of the end of the evaluation period. Surviving funds are those with return observations for every month of the evaluation period. Winner funds are those that survived and whose cumulative net return over the period exceeded that of their respective primary prospectus benchmark. Loser funds are funds that did not survive the period or whose cumulative net return did not exceed that of their respective primary prospectus benchmark. Where the full series of primary prospectus benchmark returns is unavailable, non-Dimensional funds are instead evaluated relative to the Morningstar category index assigned to the fund's category at the start of the evaluation period. US-domiciled, USD-denominated, non-Dimensional open-end mutual fund data is provided by Morningstar. See Dimensional's Mutual Fund Landscape 2020 for more detail. Index data provided by Bloomberg Barclays, MSCI, Russell, FTSE Fixed Income LLC, and S&P Dow Jones Indices LLC. Bloomberg Barclays data provided by Bloomberg. MSCI data © MSCI 2020, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. FTSE fixed income indices © 2020 FTSE Fixed Income LLC. All rights reserved. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with management of an actual portfolio. There is no guarantee investment strategies will be successful. Past performance is no guarantee of future results.

In recent time frames, investment funds that focus on cryptocurrencies and cannabis cultivation have emerged. In 2020, a fund was created to invest in pharma and biotech companies involved in the global race for a coronavirus vaccine. Another fund was established in 2020 to invest in companies that expect to benefit from increasingly flexible work conditions. Time will tell how many of these funds will survive and outperform their benchmarks.

As shown in the bar chart, a majority of investment funds do not stand the test of time, as a large percentage of funds fail to survive over the longer-term, according to a 2020 mutual fund study conducted by our business partner, Dimensional Fund Advisors. Of the 2,758 U.S. equity funds in existence at the beginning of 2000, only 41% survived to the end of 2019. For U.S. fixed income funds the numbers are similar, with only 42% of the 1,843 funds surviving the 20 year time frame ending December 31, 2019.

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Investment ideas that pass the test of time need a disciplined investment approach that is based on research and fundamentals. With those building blocks in mind, we believe your portfolio is structured and managed to achieve your longer-term investment goals.

Contact us with any questions or comments

800.586.0600 or 310.772.2600 or by email

Bruce Mandel, bruce@oakwoodcap.com

Tom Doxey, tom@oakwoodcap.com

Hal Smith, hal.s@oakwoodcap.com

Maxwell Kayajanian, max.k@oakwoodcap.com

Joel Callagan, joel.c@oakwoodcap.com

Please visit our website, www.oakwoodcap.com, to download our latest Oakwood Insights.