

## Don't Like Volatility? Take a Longer-Term View

✘ “Financial advisers need to show their clients what the distributions of stock returns are over time.” This paraphrased recommendation was given by University of Chicago professor Eugene Fama at a CFA Chicago Society event held last week. The comment was in reference to what happens to returns the longer an investor remains allocated to stocks.

Fama was specifically referencing the historical distribution of returns—a bell curve. For those of you less familiar with statistics, a bell curve plots out a group of data. Think of it as a valley followed by a hill followed another valley. To the extent data points are within a normal range, they are bunched up, forming a hill (the “bell”). The valleys are the outlying low (“left tail”) and high (“right tail”) values.

### RANGE OF HISTORICAL RETURNS

	LOW	HIGH
1-YR	-47.1%	74.9%
5-YR	-16.4%	28.1%
10-YR	-1.0%	18.7%

Source: Kenneth French Data Library,  
Large Company Stocks, 1927-2016

We're working on annotated bell curves of equity returns to show graphically how their variances change over time. While the charts are not ready for prime time, the takeaway from them can be explained. In simple, summarized terms: The longer an exposure to stocks has been maintained, the more likely positive outcomes occurred and the closer the outlying returns were to the typical range. Put another way, if you look at your portfolio with the frequency Rip Van Winkle would, you'll more likely notice both gains and less volatility. [Continue Reading »](#)

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Please note, this small description doesn't do justice to our website. It houses almost every imaginable investment tool, resource and service you might need. Once you dig into the AAI website, you'll have a difficult time signing off! As a brief example of the power of AAI.com, let me take a moment to share with you a little bit about the free members-only stock screens we provide online. Tom D. from Pittsburgh, Pa., says, "The AAI.com stock screens are awesome!" We tend to agree.

The Stock Screens area allows you to quickly tap into the investment philosophies of popular professional investors as well as to see the resulting stock picks. As a user, you'll be able to pick a name (or investment strategy) from our online menu and see the resulting companies that meet the criteria of each specific stock screen.

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*(Return data as May 31, 2017)*

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## More on AAI.com

- [Data Mixed on Whether Volatility is Rising](#) - When volatility is looked at on a monthly—instead of on a daily—basis, there is no clear evidence that it has risen over the past 80 years.
- [The Role of REITs for Long-Term Investors](#) - It's not just the perceived return of stocks that changes over time, so does the performance of real estate investment trusts as this 2012 *AAI Journal* article explains.

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## Highlights from this month's *AAll Journal*

- **Improving on the Magic Formula** - A change in how profitability is calculated was shown to realize higher monthly returns than Joel Greenblatt's original formula.
  - **Long-Term Care Insurance: Less Benefit for the Premium** - The duration of policies has declined and the growth in daily benefit coverage has lagged the growth in premiums.
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## AAll Sentiment Survey

Pessimism declined to a four-month low, but continues to remain close to its historical average.

[More about this week's results.](#)

### **This week's results:**

- Bullish: 32.7%, up 0.4 points
- Neutral: 38.4%, up 0.2 points
- Bearish: 28.9%, down 0.6 points

### **Historical averages:**

- Bullish: 38.5%
- Neutral: 31.0%
- Bearish: 30.5%

**Take the *Sentiment Survey*.**

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## The Week Ahead

Twelve S&P 500 companies are scheduled to report, including Dow component Nike (**NKE**) on Thursday.

The week's first economic reports will be May durable goods orders, which will be released on

Monday. Tuesday will feature the April S&P/Case-Shiller home price index and the Conference Board's June consumer confidence survey. May international trade in goods and May pending home sales will be released on Wednesday. Thursday will feature the final revisions to first-quarter GDP. May personal income and spending, the June Chicago purchasing managers' index and the University of Michigan's final June consumer sentiment survey will be released on Friday.

Four Federal Reserve officials will make public appearances: San Francisco president John Williams on Monday, Tuesday and Wednesday; Philadelphia president Patrick Harker and Minneapolis president Neel Kashkari on Tuesday; and St. Louis president James Bullard on Thursday.

The Treasury Department will auction \$26 billion of two-year notes on Monday, \$34 billion of five-year notes on Tuesday and \$13 billion of two-year floating rate notes and \$28 billion of seven-year notes on Wednesday.

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## Local Chapter Meetings

AAII Local Chapter Meetings offer you a variety of presentations from expert speakers who will give you their view on the world of investing. A bonus of attending a Chapter Meeting near you is the opportunity to meet other AAI members who share your interest and enthusiasm for investing. You can even share the Chapter experience with your family and friends by inviting them to attend Chapter Meetings with you! [Upcoming Meetings »](#)

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# AAll 2017 INVESTOR CONFERENCE

NOVEMBER 3 – 5, 2017 • ORLANDO, FL



**KEYNOTE SPEAKER**

**Bruce Johnstone**

*Senior Managing Director  
and Marketing Investment  
Strategist, Fidelity*

**“Business Confidence Rejuvenated?  
Could Economic Growth and  
Markets Follow?”**

Johnstone is a former Navy officer with degrees from Harvard who has had a colorful and successful career managing money and directing strategy at Fidelity Investments. Johnstone’s claims to fame include:

- Managing the Fidelity Equity-Income Fund from 1972–1990 where he achieved a return of nearly twice that of the S&P 500. His performance ranked him the #1 equity-income fund manager in the nation for the 19-year period.
- Money magazine calls him, “the best income investor.”

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**Maria Crawford Scott**  
*Former Editor, AAll Journal*  
**“Managing Your Money  
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**Meir Statman**  
*Professor of Finance,  
Santa Clara University*  
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