

Think Twice Before Making Your Own Market (Br)exit



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There is an old investing adage: “the market is always right.” Investors would be wise to question this adage in light of last week’s Brexit referendum. If the market is always right, then why were traders bidding stocks up as the British were voting to leave the European Union? For that matter, why did stocks drop on the two trading days following the vote and then rebound over the next two days? Optimism, fear and hope, all in the span of five trading days...

The efficient market hypothesis (EMH) describes stock prices as reflecting all known information. EMH has its proponents and its detractors. I would point to the recent reaction by the stock market as an example of the EMH theory failing to consider behavioral tendencies. Humans are not the rational decision makers many economic theories like to make us out to be.

THE MARKET MAY
NOT ALWAYS BE
RIGHT, BUT...



Yet one does not have to embrace the EMH or view the market as always being right to appreciate an ongoing reality: The S&P 500 index is a tough benchmark to beat, especially over longer periods. Consider the performance of mutual funds. Nearly two-thirds of large-cap mutual funds failed to even match the 7.3% annualized total return realized by large-cap stocks over the 10-year period of 2006 through 2015. Put another way, investors would have been better off by owning the Vanguard 500 index fund (**VFINX**) than the majority of actively managed funds, even though active managers are being paid to beat the market.

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AAll Sentiment Survey

Optimism rebounded to a four-week high, but the trend of fewer than three out of 10 AAll members describing their short-term outlook for stocks as "bullish" continues. [More about this week's results.](#)

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The Week Ahead

The U.S. financial markets will be closed on Monday in observance of Independence Day. AAll offices will be closed on Monday and Tuesday. On behalf of everyone at AAll, have a happy Fourth of July!

Only two members of the S&P 500 will report earnings: Walgreens Boots Alliance (**WBA**) on Wednesday and PepsiCo (**PEP**) on Thursday.

The week's first financial report will be May factory orders, which will be released on Tuesday. Wednesday will feature May international trade data, the June ISM non-manufacturing survey, and the minutes from the June Federal Open Market Committee (FOMC) meeting. The June ADP employment report will be released on Thursday. Friday will feature June jobs data, including the change in nonfarm payrolls and the unemployment rate.

Two Federal Reserve officials will make public appearances: New York president William Dudley on both Tuesday and Wednesday and Governor Daniel Tarullo on Wednesday.

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