The Rennie Quarterly Return

Rennie & Associates
Financial Planning

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Bitcoin

Now I know I have your attention. Unless you have been living under a rock this year, you are aware that the cryptocurrency Bitcoin surged from a price just under $1,000 at the start of 2017 to $12,609 at year end. That translates to a total return of 1,209%. As one would expect, along with such an outsized return came daunting volatility.

Healthy debate is ongoing about the longevity of Bitcoin and myriad other cryptocurrencies that exist today. Consensus of those in the know seems to support the technology involved, blockchain, more than Bitcoin itself. More debate focuses on the value proposition. What exactly is a digital currency worth given it has zero intrinsic value? So far, it has been shown to be worth exactly what someone else is willing to pay for it. Is it an investment? Almost universally the answer is no, in the same fashion as gold or artwork are not considered investments.

Investments In 2017

If you spent 2017 helplessly enamored of Bitcoin's meteoric ascension, you may have missed what turned out to be a very good year for traditional investments as well.

In the US, GDP expansion exceeded 3% in two [and likely three] consecutive quarters for the first time since 2014. Earnings for S&P 500 companies grew at a rate of 9.6% in 2017, highest since 2011. The late innings of an accommodative monetary policy and nascent inflation created a "perfect storm" that many analysts believe will linger, much like Harvey's stall over Houston, but with a distinctly different outcome. As a result, The S&P 500 Index returned 21.8% in 2017. Surprisingly, this stellar return doesn't even place 2017 in the top third of historic S&P 500 Index returns.

FAANGs

Growth stocks, as measured by the Russell 1000 Growth Index, returned 30.2%, but failed to achieve a top-quartile return versus history. Technology shares were the main driver here. Those holding the FAANG (Facebook, Apple, Amazon, Netflix, Alphabet) stocks would have been better off in Boeing (+93%) or Align Technology (+132%), a maker of clear braces. "Old" technology easily rivaled new.

	2017 Return
S&P 500 Index:	21.8%
Russell 1000 Growth Index:	30.2%
Foreign Developed Markets:	25.4%
Emerging Markets Stocks:	31.2%
Barclays Capital US Agg. Bond:	3.5%
Emerging Markets Bonds:	10.2%
REITs (Real Estate):	4.9%

Bonds

Bonds, as measured by the Barclays Capital US Aggregate Bond Index, returned a comparatively dismal 3.5% in 2017, though sectors of the bond market fared significantly better. Over the last decade, US bonds returned 48%. Not bad for an asset class whose obituary ran prematurely every January 1.

Overseas

Foreign and emerging markets stocks returned 25% and 31% respectively in 2017, both benefiting from robust global economic expansion. To paraphrase a recent talk I attended, when a child in sub-Saharan Africa stops at KFC and eats in front of a new TV binging on the latest Netflix series, the genie has left the bottle. This trend is irreversible and just beginning.

Context

2017 saw three disastrous hurricanes, wildfires in the US West, and assaults on humanity in Las Vegas and Texas. Thermonuclear war threats persisted. High-profile heads rolled as a virus of chronic impropriety spread across all sectors.

President Trump was inaugurated and millions took to the streets. We have investigations investigating investigations in Washington. Walls go up, walls come down. Amazon smashes traditional "brick and mortar." Apple says they're sorry. I think you get the point.

2017 was another example of the amazing resilience of the global economy. The returns above are very good, but not historically extraordinary. There have been far better years. And remember, tax reform didn't exist yet!

I wonder if Boeing takes Bitcoin?

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My Two

"The economy is the start and end of everything. You can't have successful education reform or any other reform if you don't have a strong economy."

David Cameron

Quarterly Trivia:

Which denomination of Federal Reserve note has the shortest lifespan? Longest?

The $10 note, 4.5 years
$100 note, 15 years