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# **The Concord Advisory Group, Ltd.**

## *August 2017 Market Highlights* *“Football Coaching Fallacy”*

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# Concord Advisory Group: August 2017 Market Highlights

## Commentary: “Football Coaching Fallacy”



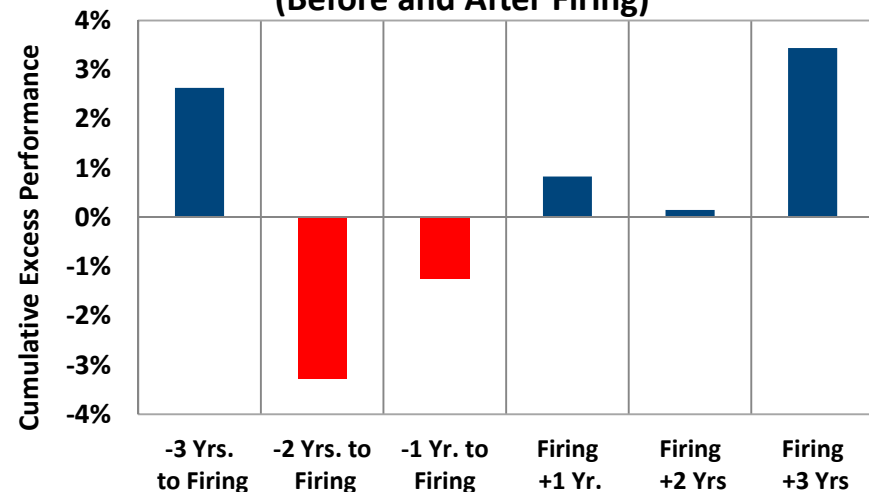
Last year, six NFL teams fired their head coaches. Firing the coach after a losing season is usually popular with the fans, but does little to improve the team’s future performance. According to Brian Burke of ESPN, historically, the season-over-season increase in wins for teams with new coaches is identical to that for teams with losing records that retained their coach, at 1.6 games.

NFL fans and owners seem to be suffering from what economists’ label “regression fallacy,” the mistaken belief that taking an action (firing a coach, in this case) during an abnormal time, causes more normal outcomes in the future. By giving advantages to teams that underperformed in the previous season, NFL’s rules are setup to encourage mean reversion of performance, regardless of the coach’s tenure. Teams with losing records benefit from playing easier schedules, receiving earlier draft picks, and the salary cap makes it difficult for the best teams to retain all their players. Additionally, teams sometimes lose games because of bad luck, for which there is no basis to anticipate persistence.

When deciding on removing or retaining investment managers, there is evidence that plan sponsors act like NFL owners. As the chart shows, plan sponsor’s investment manager hiring and firing decisions do not result in excess performance and are often times damaging to portfolio performance.

In most cases, institutional investors replace underperforming managers with managers who possess better recent performance. However, similar to losing NFL teams, plan sponsors are overlooking mean reversion. By selling underperforming managers and buying better performing managers, plan sponsors end up selling cheap portfolios and buying more expensively valued ones. This activity often causes underperformance when valuations mean-revert to fair levels.

**Domestic Equity Manager Performance  
(Before and After Firing)**



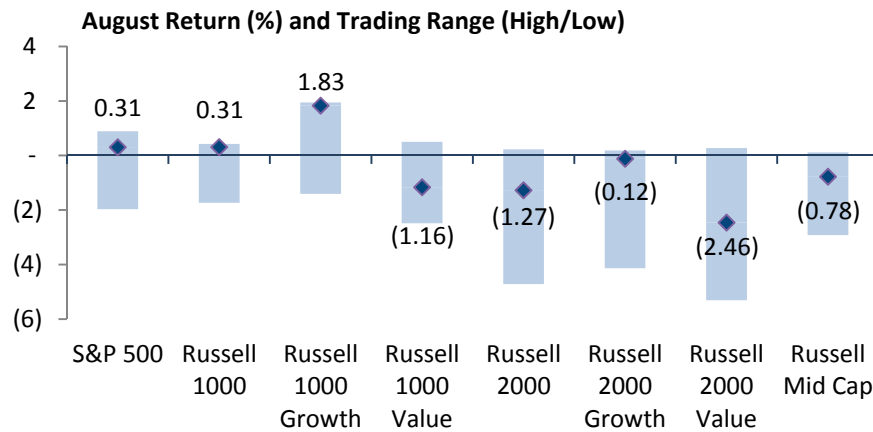
Source: Goyal & Wahal, August 2008, [The Selection and Termination of Investment Firms by Plan Sponsors](#)

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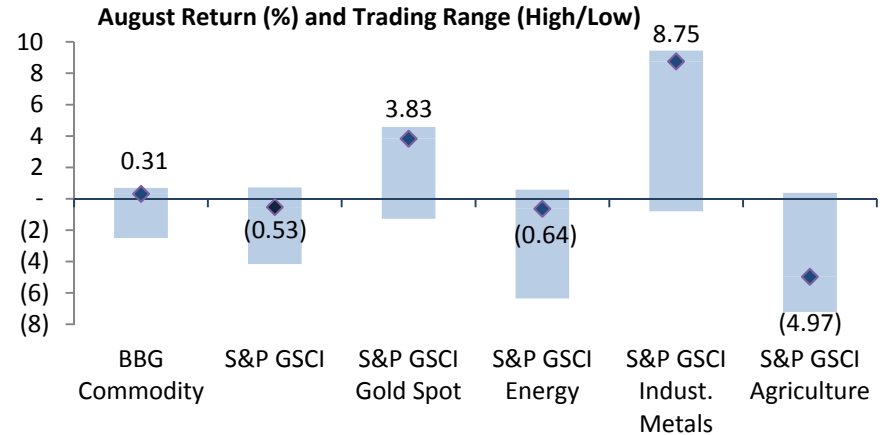
## Monthly Charts



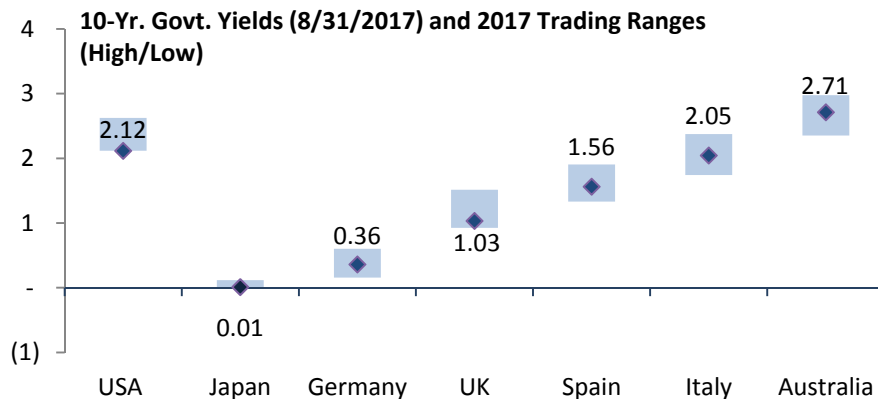
**U.S. Equities:** U.S. equities modestly advanced in August, despite volatility stemming from geopolitical uncertainties and a late-month hurricane.



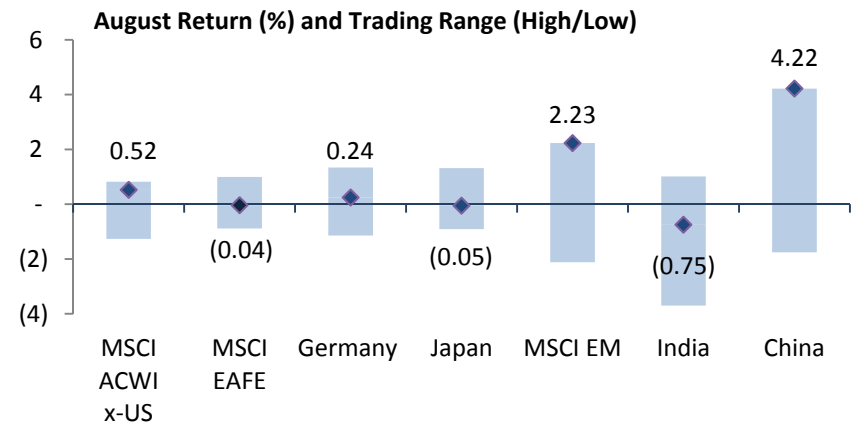
**Commodities:** Broad commodities prices kept pace with U.S. equities in August. Hurricane Harvey shut down several U.S. oil refineries, which caused a surge in gasoline prices, but a drop in crude prices.



**Fixed Income:** U.S. Treasury yields reached their lowest levels of 2017 on soft inflation data and safe haven demand. Investment grade and high yield corporate bonds trailed Treasuries as credit spreads widened.



**International Equities:** Developed market equities ended the month flat. Emerging markets marked a ninth consecutive month of gains.

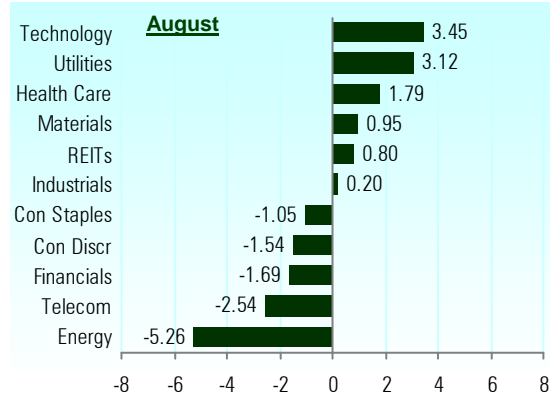


# Concord Advisory Group: August 2017 Market Performance

| Equity Markets      | Past Month | Past 3 Months | YTD    | 1 Yr   | 3 Yrs   | 5 Yrs   |
|---------------------|------------|---------------|--------|--------|---------|---------|
| S&P 500             | 0.31%      | 3.01%         | 11.93% | 16.23% | 9.54%   | 14.34%  |
| Russell 1000        | 0.31%      | 3.01%         | 11.79% | 16.16% | 9.21%   | 14.37%  |
| Russell 1000 Growth | 1.83%      | 4.26%         | 19.17% | 20.82% | 11.67%  | 15.41%  |
| Russell 1000 Value  | -1.16%     | 1.79%         | 4.81%  | 11.58% | 6.74%   | 13.25%  |
| Russell MidCap      | -0.78%     | 1.69%         | 8.73%  | 12.44% | 7.32%   | 14.11%  |
| Russell 2000        | -1.27%     | 2.90%         | 4.42%  | 14.91% | 7.67%   | 13.15%  |
| Russell 2000 Growth | -0.12%     | 4.20%         | 10.78% | 16.39% | 8.20%   | 13.75%  |
| Russell 2000 Value  | -2.46%     | 1.59%         | -1.31% | 13.47% | 7.07%   | 12.51%  |
| MSCI ACWI           | 0.38%      | 3.66%         | 15.03% | 17.11% | 5.58%   | 10.46%  |
| MSCI World          | 0.14%      | 2.93%         | 13.47% | 16.19% | 5.92%   | 11.10%  |
| MSCI ACWI Ex-U.S.   | 0.52%      | 4.55%         | 18.92% | 18.88% | 2.36%   | 7.36%   |
| MSCI EAFE           | -0.04%     | 2.66%         | 17.05% | 17.64% | 2.83%   | 8.48%   |
| MSCI EM             | 2.23%      | 9.42%         | 28.29% | 24.53% | 2.38%   | 5.30%   |
| Bloomberg Commodity | 0.40%      | 2.48%         | -2.72% | 2.99%  | -12.27% | -10.14% |

| Fixed Income Markets                    | Past Month | Past 3 Months | YTD    | 1 Yr   | 3 Yrs  | 5 Yrs  |
|---|------------|---------------|--------|--------|--------|--------|
| Barclays Capital Aggregate              | 0.90%      | 1.23%         | 3.64%  | 0.49%  | 2.64%  | 2.19%  |
| Barclays Capital Global Aggregate       | 0.99%      | 2.60%         | 7.22%  | 0.19%  | 0.65%  | 0.91%  |
| Barclays Capital Intermediate Aggregate | 0.65%      | 0.85%         | 2.74%  | 0.81%  | 2.24%  | 1.87%  |
| Barclays Capital Universal              | 0.86%      | 1.28%         | 4.03%  | 1.34%  | 2.96%  | 2.66%  |
| Barclays Capital Government             | 1.06%      | 1.08%         | 3.12%  | -0.84% | 2.12%  | 1.37%  |
| Barclays Capital Credit                 | 0.84%      | 1.84%         | 5.31%  | 1.90%  | 3.45%  | 3.39%  |
| Barclays Capital Municipal              | 0.76%      | 1.21%         | 5.20%  | 0.88%  | 3.40%  | 3.24%  |
| Barclays Capital High Yield             | -0.04%     | 1.20%         | 6.05%  | 8.63%  | 4.77%  | 6.47%  |
| Barclays Capital Mortgage               | 0.73%      | 0.78%         | 2.55%  | 0.80%  | 2.46%  | 2.05%  |
| Barclays Capital 1-3 Yr Gov/Credit      | 0.20%      | 0.42%         | 1.18%  | 0.90%  | 1.07%  | 0.96%  |
| Citigroup 3-Month Treasury Bill         | 0.08%      | 0.23%         | 0.46%  | 0.57%  | 0.25%  | 0.17%  |
| Citigroup World Govt Bond               | 1.18%      | 2.91%         | 7.68%  | -0.87% | 0.16%  | 0.06%  |
| Barclays Capital U.S. TIPS              | 1.06%      | 0.55%         | 2.38%  | 0.46%  | 0.98%  | 0.25%  |
| ML Investment Grade Convertible         | 0.40%      | 3.33%         | 13.96% | 20.98% | 10.42% | 13.76% |

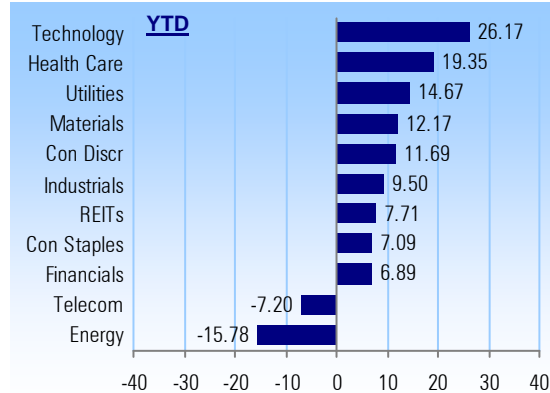
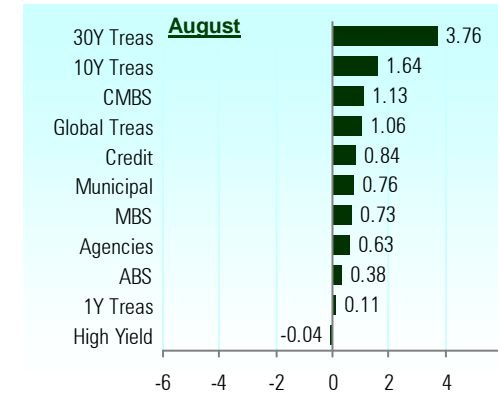
## Equity Sector Returns (%)



## Equity Style Returns (%)

| August | Value | Core  | Growth |
|--------|-------|-------|--------|
| Large  | -1.16 | 0.31  | 1.83   |
| Mid    | -1.87 | -0.78 | 0.71   |
| Small  | -2.46 | -1.27 | -0.12  |

## Fixed Income Sector Returns (%)



| YTD   | Value | Core  | Growth |
|-------|-------|-------|--------|
| Large | 4.81  | 11.79 | 19.17  |
| Mid   | 4.58  | 8.73  | 14.06  |
| Small | -1.31 | 4.42  | 10.78  |

## Treasury Yield Curve

