Chassis and Interest Alignments

When you're driving your car around it is imperative that it's well aligned – the front end, the chassis, the suspension – everything needs to be well aligned for your car to roll down the road smoothly. The alignment is so precise and sensitive that if it's out of alignment by a small fraction of an inch then the car will shake, rattle and roll like a jackhammer going down the road. There are so many mechanical systems on a car that need to be just right to make it all work together, it's a technological tour de force that few people truly appreciate what goes into it to get the finished product. You likely know if the front end isn't well aligned the car will grind your tires down to smooth rubber tubes, wavelike rubber sine waves or steel braids. Rotating your tires keeps the pain of tire wear to a minimum and if you're well aligned the tires will wear evenly. Did you ever notice how much better your car rides when you get new tires and have the front end aligned? If your driveshaft isn't aligned the car will rattle the fillings out of your teeth and your brain loose in your head. Not only should the physical alignment be there, financial alignment should be there too – if the owner of the Lexus dealer isn't driving a Lexus I don't want to either. People often speak louder with their actions than with their words – be sure to listen to both. The bottom line is that alignment is critical in your ride in many ways. Without proper alignment the car isn't enjoyable to drive, in fact, it's downright miserable.

There is an equally important relationship between alignments in your investments. When you invest in a mutual fund or exchange traded fund, are your interests aligned with the managers of that fund? About 50% of all mutual fund managers own the funds they manage – a few firms are awful at management owning the funds they run- there is little or no requirement for the manager to put their money alongside yours – namely Fidelity, TIAA-CREF, Vanguard, American Century and T. Rowe Price. It infuriates me when Wall Street continues to manufacture new products that the manufacturers do not use themselves. The most recent and disgusting example of this is ETF's – Exchange Traded Funds. These are funds that own a market basket of stocks and or bonds that do not change and can be traded intra-day. Mutual funds can only be traded at the end of the business day, so these vehicles have much more trading flexibility. There was a very interesting study done based on reports submitted to the SEC (Securities and Exchange Commission) that reveals a sad and aggravating statistic. There are two firms that manage about 85% of all ETF assets in America, a category growing very, very fast now responsible for 360 Billion dollars of assets. Only 6% of ETF fund managers actually own the ETF's themselves! This is like the owner of the Mazda dealer driving a Chevy Corvette – a slap in the face. If the product is so good, why doesn't management own it? Perhaps the product isn't so good? A case of someone speaking very quietly with their voice and very loudly with their feet – or in this case their wallet. Be wary of aligning your interests with those of investment managers. Enjoy the ride! ☺