

*"The only investors who shouldn't diversify
are those who are right 100% of the time."*

~ Sir John Templeton

For the second year in a row, U.S. stocks outperformed every other asset class. This leaves many investors wondering whether they are doing the right thing by owning a globally diversified portfolio rather than one concentrated in the U.S. stock market.

Despite the recent past, I think diversification is still the right path for most investors. This is because:

The nature of markets is cyclical. Last year's results are not a good predictor of next year's. If you come to accept that returns from year to year are random, then diversification is the most reasonable approach. No one knows how the various asset classes will perform next year—which ones will do well and which won't. So it is best to own some of each asset class. A diversified portfolio will not be at the top of the heap, but neither will it be at the bottom. It will be somewhere in between, which is an acceptable outcome for most.

Beyond return expectations, diversification is a necessity for mitigating risk.

Investment math is cruel—a 50% loss in year one requires a 100% gain in year two to get back to even. Younger investors may shrug off a 50% loss, but those at or near retirement cannot since this could result in a permanent reduction in their standard of living. Diversification requires adding asset classes that move in different directions at different times. Even in 2008 when global stock markets crashed, investors found safe haven in government bonds and cash. If you cannot afford a permanent impairment in your standard of living, you cannot afford to be undiversified.

It would be the height of hubris to look for opportunities only in the U.S.

There are many dynamic economies around the globe, many countries with favorable demographics and a world of opportunities for investors. Our balanced portfolio has outperformed the S&P 500 for the 14 year period ending in 2014, mostly because we had exposure to non-U.S. investments.

Market timing is hard. The problem is you have to be right twice—once when you buy and again when you sell. Since this is unlikely, investors should take comfort in mean reversion (the concept that all over-priced and underpriced assets eventually revert back to their fair value) and use this knowledge when allocating portfolios. U.S. stocks are currently priced well above fair value due to the dramatic run-up in the market over the past few years. However, these gains are not locked in unless you sell out entirely (which requires the correct aforementioned market timing—something we don't recommend.)

History tells us that due to current valuations future U.S. stock returns will be lower than normal, an unpleasant experience that can be offset by owning a diversified portfolio.

I began with a quote from Sir John Templeton and I end with one too:

"To buy when others are despondently selling and to sell when others are avidly buying requires the greatest of fortitude and pays the greatest ultimate rewards."

Happy New Year!

CLAUDIA ABEL

– I remember when Doug gave us a little mini-course on investments. He had chapters prepared and he explained it all in language anyone would understand. We were all so proud when we “graduated” and he presented us with pen/pencil sets—I’m still using mine.

NANCY T. BELL

– My favorite Doug Eyles quote is **“Take care of the client and the rest will take care of itself.”**

PAULA BRENNAN

– My favorite part of the day is five o’clock. Not because of why you’re thinking, but because at the end of each day, Doug stops at my desk, spends a few minutes to sum up the day in a positive way. It’s a scene right out of Boston Legal with James Spader and William Shatner—but no balcony and no cigar—just a really special moment; one that I’ll miss.

KAREN GARCIA

– Doug is a great person with a great heart. He shared his knowledge with me from my very start here at TCI. My favorite quote from him is **“I bet they didn’t teach you this in college, did they?”** It has been an honor for me to work with him. I bet I’ll still hear from him as he says he has nothing better to do than look at all the investment reports I create.

GREG OSKO

– What greater statement could you make about your career-long partner than he’s smart, ethical, extremely dedicated to the task at hand and just a lot of fun to work with. That pretty much describes “our rich and very famous Uncle Dougie” as our kids used to call him.

JOHN VIRES

– Doug is a great mentor, colleague and friend. Above all else, I appreciate his quick wit. I mostly enjoyed his bon mots when they were directed at others, but I wasn’t immune from targeting. While rehearsing for my presentation at our spring conference, I ran through performance numbers, referring to the results as “good.” Afterward, Doug pulled me aside to tell me, **“Never characterize the results. Let the clients do that.”** A good line and good advice!



Doug Eyles

The close of 2014 also brought about the end of an era: Doug Eyles has officially retired from his day-to-day work at TCI.

Although we are fortunate to have him continue on as a member of the Board of Directors and Investment Committee, we will miss his cheery demeanor on a daily basis. To us, Doug embodied all that is Trust Company of Illinois.

It’s his life’s contradictions that made Doug the man he is. Born and raised on Chicago’s North side, he smiles as he states that he had the “remarkably good sense” to become a Sox fan.

His childhood home had very few rules and his mother encouraged him to be a free spirit, but she also wanted him to learn from his circumstances. As a boy Doug caddied at local golf clubs and to this day he enjoys playing rounds with friends in Illinois or around his winter home near Marco Island, though golf never tempted him to leave his day job. A recent playing partner, taking Doug for a beginner after witnessing his eccentric golf swing and unorthodox course management, asked him how long he had been playing. “Around 50 years,” replied Doug.

Doug began his career at Continental Bank where he had the good fortune to sit next to another young man named Greg Osko. They became fast friends and stories from those days still bring about laughter when either is asked to share a tale or two. Those were the early 1970’s, Doug recalls, when office workers smoked cigarettes at their desks. He proudly states that he was able to finally set aside the habit after accidentally lighting his work papers on fire.

“Doug is professional, warm, welcoming and ALWAYS smiling. He rarely greets someone without using their name. His compelling laugh resonates throughout the office. Love him!”

~ Sandy Vivian

In 1972 Greg was hired by Gary-Wheaton Bank and good-friend Doug soon followed. Working side-by-side in the trust department, they explored entrepreneurial ideas and the concept of becoming a “manager of managers” in portfolio construction. In time they grew the bank’s assets under management from \$2 million to over \$900 million! Then in 1993 Doug joined Greg and several other Gary-Wheaton alums in starting TCI.

Throughout his career Doug formed strong bonds with his clients, becoming a trusted confidant and friend. He always had a particularly great respect for women which he attributes to growing up with three sisters and a “very wise” mother.

“Even in retirement, I know Doug’s positive influence will carry forward into the future of our company. We are all better because of him.”

~ Bill M. Giffin

Doug and Greg recently reflected on their professional relationship and friendship. Doug concludes, “We rarely agreed on much, but we learned from one another. Our different perspectives always broadened the scope of discussions to the benefit of our clients.” To which Greg added, “Sadly, now that Doug has retired, I’ll have to find someone else to disagree with me so productively!”

In his newfound freedom Doug looks forward to devoting more time to ministries at his church, and is considering other voluntary activities such as Stephen Ministries, a program that his late wife of 43 years, Lynn, especially loved.

Doug Eyles’ leadership not only helped clients transform their financial aspirations into reality, it has shaped the TCI culture. As a Director and as a client, his influence will continue to be present for years to come.