Short and Long Answers on the Market, Economy, and Your Planning

Part 2

By: David Jeter, CFP® *May 2017*

Where can I find the exact answer for what my stock market investments will do the rest of the year?
Accurately and honestly? Nowhere.

Surely someone knows? Wall-Streeters or the people who predicted the Banking Crisis?
Not hardly. And, list their second correct call...

So what should I do!?
Economist John Kenneth Galbraith suggested, "The function of economic forecasting is to make astrology look respectable."

Warren Buffett noted of his own work, "I make no attempt to forecast the market – my efforts are devoted to finding undervalued securities."

What these two quotes are meant to suggest is that there are many variables that impact a changing investment market; however, there is no single formula for how the variables impact the movement of the market in the near-term future. There are plenty of people who make an industry of telling us they do, but the fact is they don't. The factors that determine market experience show themselves over long periods of time, not single years.

I understand what the true question is here. It's not that someone actually thinks they can be told exactly what the stock market will do. People ask me, "What do you think the market will do?" but they just want assurance of something. Humans just do not like uncertainty (there is plenty of that to go around right now). So, when faced with uncertainty, our brains do all sorts of things to create or conjure up "certainties." We do everything from seeking "social proofs" to "shooting the messenger." Social proofs involve our tendencies to look to others as to how we should behave, what we should think, and what we should do. In other words, we all seem to act like 7th-grade girls when it comes to our money! That's a bit harsh, but we do grab something off of the newsstand to find out if we should feel better or feel worse...and that is not necessarily appropriate. Shooting the messenger involves denying credibility to a minority voice just because it isn't the popular voice. They aren't always right, but if they are consistent, thoughtful, and articulate, they may be on to something.

As a financial adviser, one thing I've thought of doing is pairing my clients in their 70's and 80's with clients in their 40's and 50's to do a joint meeting. The reaction to an uncontrollable stimulus by these two groups is very telling. The issues that are desired to be covered are different and not just because younger families still have college to pay for. I would just say that older clients who have attained a level of financial success were not lucky nor were they more interested in financial markets. What I will say is that they look further out at the horizon than younger folks. Younger people look over the side of the boat at every wave lapping against their boat. If I can get them to look up and not try to navigate every ripple, I can help them avoid "financial sea sickness."

What's the biggest factor for investing success?
Time.

What's the biggest impediment to people investing successfully?
Behavior.

Why do you say that?
Dalbar, Inc. performs an annual study titled, "Quantitative Analysis of Investor Behavior," in which they report individual investor performance compared to market indices. According to Dalbar, during the period December 3, 1995, to December 31, 2015, the S&P 500 Index averaged 8.19% per year, and the average equity investor averaged 4.67% for the same period. In the same study, the Barclay's U.S. Aggregate Index returned 5.3% annually, and the average fixed-income investor averaged 0.51%.

The study has key findings that suggest the primary reason for this underperformance is that investors sell individual investments after a downturn and buy them after the market has risen significantly. It also suggests investors move their money to the asset classes that just recently performed best and move out of the ones that have been struggling. These behaviors at both the individual security and asset class level are the exact opposite actions that should be taken.

One very important factor that I think is not explained enough is that when you sell a publicly traded security (i.e. mutual fund, ETF, stock), you are not returning it to the company like exchanging an outfit at Macy's. There is another investor buying it from you. The question you need to ask yourself is, "If I am so sure that it is the right time to get out, why is someone so sure it is time to buy it from me?"

Continued.

Short and Long Answers Part 2 Cont.

Should I assume that cheaper investment costs are always better?
No. This is suggested by financial journalists because it's easy and "feels" correct.

But, some companies do charge too much for their investments or planning services?
Yes.

Your best advice?
Have goals. Have a plan to reach those goals. Work the plan with solid strategies. Review the progress of the strategies. Adjust the plan if needed. Repeat.

Benjamin Graham is a noted economist and widely known as the father of value investing (Warren Buffet says his life was changed when he picked up Ben Graham's book, "The Intelligent Investor"). Graham has stated, "The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioral discipline that are likely to get you where you want to go."

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My role as an adviser is most effectively imparted by guiding clients to quantify goals, crafting a plan, funding the plan, and coaching them to continue working the plan through all cycles and factors discussed above. There is little long-term value provided by my take on timing the market and making calls on economic events. I like to focus on what we ***can*** control.

If you would like to discuss the subject matter in this article or any question related to your financial planning, please contact David Jeter at 412.536.8012 or djeter@alleghenyfinancial.com.