Stop Being So Emotional Already!

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There's an interesting study that was done by Dalbar, Inc. in March of 2013 that I see in various marketing materials from time to time that I have always found meaningful. It deals with the retail investors' cycle of emotions and how we tend to make poor investment decisions based on our emotions. In a time when we are constantly bombarded with commercials and radio spots about how investors can work with one of these on line trading platforms and get advice from an advisor over the phone at a fraction of the cost of working in person with a financial advisor, I thought this would be a good time to address this issue head on!

To begin with, no advisor has a crystal ball or a magic strategy that will provide investors with the investment experience they so hope for. What I mean is, timing the market is next to impossible. I attend many conferences all over the country and hear from some of the top economists and portfolio managers in the world. They all have an opinion about the future of the economy and an outlook on the stock market over several periods of time. There is one resounding theme I find amongst them all however; none of them knows for absolute certain what's going to happen next. Do some of them get lucky from time to time? Sure, there have been instances where a portfolio manager or a financial advisor has predicted a market top and have gotten out at the right time. Is this a repeatable process? Absolutely not!

So why work with an advisor then? Why invest at all? Isn't it all just one big gamble? If you will refer to the study I referenced at the bottom of this letter, you will see that the average retail investor has only experienced an average of 4.25% growth in their portfolio from January of 1993 to December of 2012. This is in stark contrast to the S&P 500 Index which returned 8.21% over the same period of time. The average equity investor would have only had about half of the return than they would have if they had just bought an S&P 500 index and weathered the storms for better or worse. Think about that! Why such a dramatic difference? The difference is that, as investors, we tend to buy when the market is hot because we're finally optimistic about what's going on in the world, and we're sick of hearing how our neighbor is up 18% and we've been sitting in cash because we're too concerned about losing money again. We sell when the market has crashed because we're worried everything is going to zero and we want to preserve what little we have left. It's hardwired into our brains to behave this way. We're emotional about our money and we react accordingly.

Working with an advisor does not mean you will have somebody that will get you in and out at the right times. It means you have somebody that will talk you away from the ledge. When you want to dump your entire life savings into the stock market because CNN is telling you the market has rallied over 170% since March of 2009, an advisor will say "Wait a minute, what are your long term goals, and is this the right move for you?" "Instead of putting all your money in the market at one time, let's buy in periodically and systematically…" " Let's wait some time and wait for the next big market correction!" Instead of selling out of everything in your portfolio when you're down 40% because you can't afford to lose any more, an advisor might say "Are you selling your house because it has lost value?" "This is not unprecedented territory and we will make this money back if we stick to our long term objectives and risk tolerances."

Do you see what I'm getting at? Don't go through this alone. Call an advisor and get a second opinion. Spend a little extra to work with somebody you trust and that knows your fears, your desires, your kids names and their dreams of out of State College. Find an advisor that will keep you focused on what your goals and objectives are, and won't let you make decisions that will affect your ability to reach those goals in the timeframe you had planned for. Most importantly, stop making emotional decisions about your money without professional help!

Respectfully,

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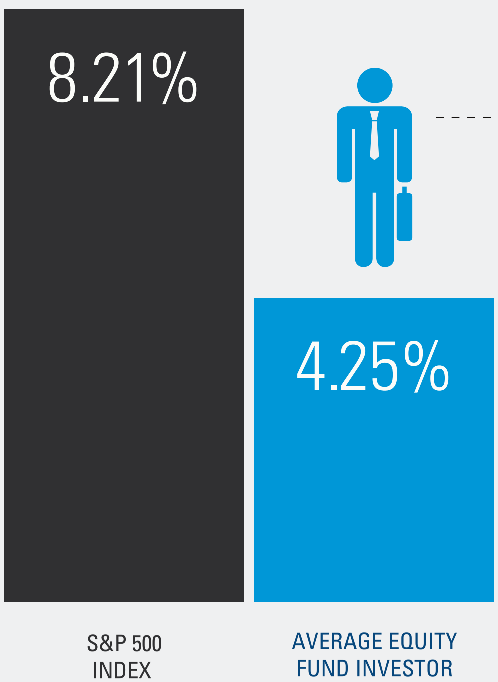
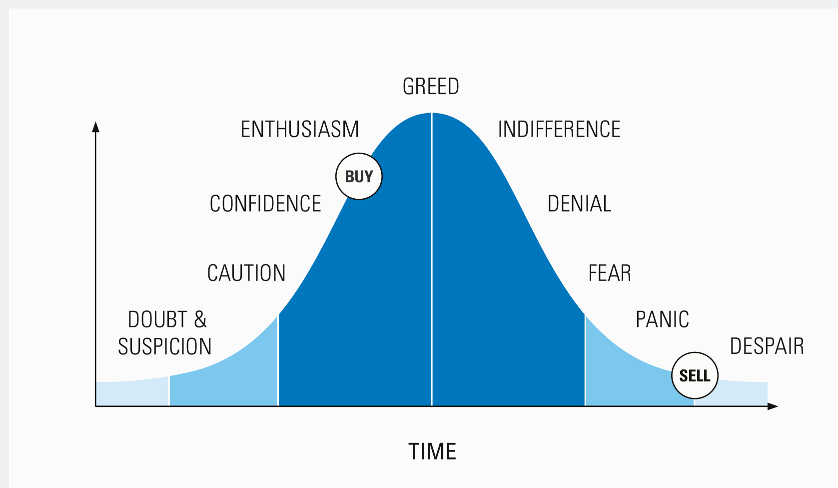
Market volatility can shake investor confidence and impact performance

The Cycle of Emotions and the Returns of the Average Investor

Average Annual Returns
Equity Market Returns vs. Equity Mutual Fund Investor Returns from Jan. 1993 to Dec. 2012



The Cycle of Emotions
may impact investor decision-making



Source: Dalbar, Inc., Quantitative Analysis of Investor Behavior, March 2013. The bar chart depicts the average annually compounded returns of equity indices vs. equity mutual fund investors based on the length of time shareholders actually remain invested in a fund and the historic performance of the fund's appropriate index. Past performance is no guarantee of future results. Investors cannot invest directly in an index.