Active Investment Strategies Help Real People

Recently, it seems there's no shortage of buy-and-hold investment advice from the news media and financial pundits. In fact, the advice usually begins by berating individuals for failing to buy and hold and then moves on to show how holding an index fund for 20, 30 or 50 years outperformed the average investor. The problem with this advice is that market risk is very real. The S&P 500 index took 13 years to regain its high in 2000. That's a long time to live with the memory that you no longer feel financially secure. The market decline in 2008 added to the insecurity of investors and the feeling that they had little if any control over their investments.

For real people, losses hurt. In fact, studies show that losses hurt a lot more than the pleasure one might get from making money. When your account is down 25% or much worse 50%, it isn't a theoretical loss. The loss may be three or more years of your net salary, or 10 years of savings. Yes, so far the market has always recovered over time, but there's never a guarantee that next recovery will happen fast enough, or for that matter happen at all.

Uncertainty is the greatest hazard of investing. 2014 was a good year for equities. 2015 is looking a lot shakier and there are plenty of predictions that the market is headed for a fall whether from rising interest rates, economic doldrums or political uncertainty. At the same time, history tells us that the 3rd year of president's term is best for stocks.

Active investment strategies that strive to limit losses when the market turns down are designed for real people. Who do we consider a "real person"? It's the person who buys fire insurance. The family who saves for emergencies and for retirement because they don't want to be at the mercy of fate. Real people realize that bad things can happen and they don't want to have their lives destroyed by an event beyond their control. Real people work to add some measure of risk management to their lives. Leaving their life savings to the mercy of the market is not risk management.

When active management can remove at least some of the uncertainty that comes with investing. Having a carefully designed strategy for moving in and out of the financial markets in response to perceived risk and opportunity helps people stay invested for the long term. And that is the most important element of successful investing.

Investors have a very good reason to be scared onto the sidelines by bear markets. But they have to have a plan to get out early in the decline and back into the market - or back into investments with more upside opportunity - when the correction is over.

Our firm was founded based on the belief that recognizing and managing risk is the smart way to invest. We have invested years in studying the financial markets through technical analysis; looking for clues that tell us when risk is greater than the perceived return we might achieve by staying in the market. Is our system perfect? No. Will it outperform a buy and hold investment in an index? Rarely in rising markets. But can it provide investors with a better long-term return? We believe the answer will prove to be yes over the investment lives of our clients. In part, this will be the result of the mathematics of gains and losses. As Paul Tudor Jones' quote to the left shows, losing value to a market decline hurts more than most investors realize and costs time. Any time an investment approach limits losses, the investor gains leverage to profit from rising markets.

The chart below was taken from a presentation by Greg Morris, former mutual fund executive, technical analyst, consultant and author of prominent active management books, including his latest, *Investing with the Trend*. Which portfolio would you rather own?

Which portfolio would you be more comfortable owning?

	Portfolio A	Portfolio B
Year 1	+10%	+13%
Year 2	+6%	+8%
Year 3	+8%	-20%
Growth of $100	$126	$117
Compounded Annual Return	+8%	+5.4%

If you are concerned that you may not be ready for retirement, give our offices a call and let's talk about where you are today and where you would like to be, or need to be, to retire.