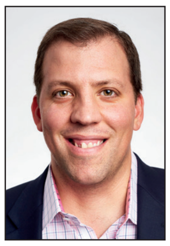
Investing in long-term progress over short-term perception



GUEST CORNER

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One thousand and five Americans were asked the following question – "Has the percentage of the world's population that lives in extreme poverty almost doubled, almost halved, or stayed the same over the past 20 years?"

Before you read on, think about your answer.

Extreme poverty has been cut in half. Did you get it right? If so, you were among the mere 5 percent that did. This question was posed by Hans Rosling, author of the excellent book, "Factfulness: Ten Reasons We're Wrong About the World – and Why Things Are Better Than You Think." There are many other questions he asked just like this, with similar results.

The book illustrates how the world typically gets inexorably better each year, without us taking much notice. Why don't we notice? While the reasons for the gap between human progress and perception are varied, we believe the most direct explanation is gradual positive news doesn't "sell" like sudden and rare events. As Rosling states, "In the media the 'newsworthy' events exaggerate the unusual and put the focus on swift changes."

We believe the same disconnect often applies to investing. In general, investing works over time precisely because the human race has been remarkably adept at making progress throughout recent history. Progress often takes the form of long-term global economic growth and corporate profitability. By investing, stock and bond investors seek to realize the benefits of economic growth through the price appreciation, dividends and interest payments, which gradually compound over time.

But the swinging pendulum of human perception can make the process of investing more difficult than it sounds. As the economic, profit and credit cycles undulate in the short-term, "the focus on swift changes" can exaggerate our emotions. As our perception swings from fear to greed and back, extremes in the investment cycle are often created and the discipline to buy low and sell high can become extremely uncomfortable. In fact, investors often feel compelled to do the opposite, frequently to the detriment of their financial health.

So how can investors potentially capture the long-term financial returns on progress, without being captured by the often detrimental impact of short-term perception? Answer: Control the controllable and minimize distractions. Here are five ways that may help you to stay on course:

• **Adopt a Financial Planning First Mindset** – While investing may help you to accelerate the progress of a thoughtful financial plan, it is not the end unto itself. You invest for your family, a secure retirement, to have fun, to live the life you enjoy today and want tomorrow. It's not about short-term investment return; it is about your long-term ability to do what you intended.

• **Find the Right Portfolio "Path" for You –** If you don't know your threshold for accepting the potential risk of investing, you can leave yourself vulnerable to making poor decisions during difficult periods. An accurate assessment of your risk tolerance or "comfort zone" may help you to align your portfolio with your ability to withstand difficult market performance.

• **Diversify Properly –** Construct portfolios by combining investments that serve unique roles in different market environments. We believe that by ensuring the "non-stock" investments (bonds and other alternatives) in your portfolio do not behave like stocks, you may potentially improve the balance within your portfolio and smooth out the investment roller coaster ride.

• **Harvest Returns Tax-Efficiently and at Low Cost –** Expenses have a negative performance "drag" on investment returns and can weigh down the growth of your savings. Seek to minimize investment expenses by utilizing low-cost funds and locating your investments in the proper place for enhanced tax efficiency.

• **Periodically Adjust to Sell High and Buy Low –** The simple act of rebalancing back to your targeted mix of stocks and bonds will keep you within your comfort zone and short circuit the natural human greed and fear impulse that leads to chasing positive short-term performance and abandoning the unloved assets in the market.

For investors, swings in perception often make earning the potential financial rewards of progress a challenging endeavor. We believe that by controlling the controllable, you may achieve a more comfortable and profitable investment experience and potentially accelerate the progress of your financial plan.

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