If a Rally Occurs in a Forest and Nobody was Invested …

First Quarter 2012

Since March 2009, there is no question that the US stock market has risen significantly, and the first quarter of 2012 was no exception. As usual during a bull recovery, many investors pulled out of equities. This trend started before March 2009 and continues through today. To go one step further, according to the Investment Company Institute (ICI) last year continued that trend where investors have been in net redemption of US equities for the last three years. In 2011, investors withdrew $ 135 Billion from equity positions[1], even though the US equity market has been compounding at almost 20% a year for the last three years[2] . Finally, according to the ICI, the percentage of US investor's assets invested in stocks and bonds has changed from 59% in stocks in 2000 to where it is today, at 45%, and the amount of bonds that US investors now hold have doubled to more than 26% in bonds.[3]

Once again we see the continuing trend of buying high and selling low. Investors owned the largest amount of equities in their portfolios right at the peak of a giant ten year bull run. The 90s were a fantastic time for stocks. Since then investors have been reducing their equity exposure. And then we wonder why investors lose money during a recovery or a bull run. We have never been able to "time" the market. Any attempt to do so leads to poor performance.

> **"Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in the corrections themselves."** - Peter Lynch

Mr. Lynch has been considered as one of the great all time investment minds. This quote is almost 20 years old[4] yet it seems that the lessons are never learned. Most of our investment goals are long term in nature, yet we continue to worry about the markets on a daily basis.

Retirement planning does not include investing until the first day of retirement, but for the rest of your life. Even if you are looking to invest for college for your child or grandchild, you can not invest with the intent just to conserve capital. College costs are growing much faster than inflation; if your investments grow less than the cost of college, you will lose, not gain, financial ground.

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[1] Leg Mason March 8th 2012
[2] Leg Mason March 8th 2012
[3] Leg Mason March 8th 2012
[4] Leg Mason March 8th 2012

Forgive me if I sound like a broken record, but the message bears repeating: there is no such thing as investing risk free. You can not create an environment where your investments have no risks; however you can choose what risks you are willing to take. Investing in bonds at the lowest yields in our lifetime is inherently risky, even if over the short run it does not appear so. Stocks that are yielding more than bonds is also a very rare event.

Try to remember that money is a tool to reach your goals, not a goal in itself. Keeping that in mind will help you bypass your innate behavioral bias to be poor investors and put you on a better path to reach your goals. And all I can say is “May the odds be always in your favor.”

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