



How The Investment Path We Choose Affects The Outcome We Get

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By Jim Pursley
President and CIO, Gaia Capital Management, Inc.
www.gaiacapital.com
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Dear Friends,

When we begin investing it is wise to think about the outcome we want to receive and the volatility or uncertainty we are willing to accept as our investment progresses toward our desired outcome. For example, we might see our eventual financial independence as a certain dollar income – a laudable outcome - and we might state that we are prepared to take an occasional drop of X percent over a year's time if we were certain to regain or to exceed our prior high balance within a reasonable time. To illustrate outcome and investment experience, Michael Kitces, a noted financial planning thinker, ran a study of three retirement income strategies, each with thousands of investment observations over a 50-year period. Those of you not anywhere near financial independence (retirement) can benefit from his study as the results can be generalized. The three strategies are:

- A low uncertainty lifetime annuity (monthly income guaranteed and paid by an insurance company)
- A moderate uncertainty 60% stock/40% bond investment portfolio
- An occasionally high uncertainty 100% stock portfolio

Kitces focused on two things – the amount earned over a 35-year span and the chance of running out of money before 35 years elapsed.

Surprise, surprise, the annuity option had a zero failure rate (the insurance company did not go bankrupt) but it had by far the lowest 35-year total income. The 60% stock/40% bond program had a very modest failure rate and returned substantially more than did the annuity. The 100% stock program returned by far the most cash but had the highest failure rate.

Looking deeper, though, Kitces noted that the stock and the stock/bond failures occurred only when retirement lump sums were contributed near the end of a years-long speculative boom period such as the end of the Nifty Fifty bubble in the early 1970's, the end of the dot com bubble in 2000 and the end of the credit/real estate bubbles in 2008. The lowest failure rates occurred when people invested their lump sums at the lowest points in the market cycle.

Taking Kitces' results to heart, we observe that as investment advisors we can hold back cash if a new client comes to us during a speculative investment period or we could invest in what had NOT risen, such as was the case of value and quality stocks during the 1990's. Our quality stock and rising dividend core strategy allows us to invest a greater proportion of client money in stocks with the same volatility/uncertainty risk that a stock/bond portfolio would have, thus increasing long-term returns.

Please keep Kitces' study in mind as you look to your investment reports and consider what your future might look like if you can be financially independent. Above all, keep track of the incremental annual growth of your investment income, as it is the best milepost of your trek toward financial independence.

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