



Unshakeable Conviction Is Staying Power In Volatile Markets

Saturday's With Jim

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Dear Friends,

As asset allocation (diversification) is the market's "free lunch," so is strong belief akin to faith the bulwark of investment success. Let me explain.

Stock investors are mildly tested by downward volatility in their account balances, perhaps once or twice a year, and sorely tested every few years. Severe tests (drops of 20% to about 50%) tease investors with breathtaking up moves, inevitably followed by downward moves. The whole bear market saga usually ends with a crescendo of fear driven selling.

A stock investor without strong convictions in strategy will suffer quietly like those living through the stock and economic winter on stored profits, likely capitulating as the tension becomes unbearable (no pun intended), turning a large paper loss into lost money and lost hopes. Indeed, in prior posts we have discussed the higher performance of funds that executed their strategy in thick and thin.

Angst due to falling stocks can be ameliorated by holding investments with lower volatility, like bonds, cash and items that are valued only infrequently like collectibles and even some forms of real estate ownership. The price of excessive defense which severely cuts down our allocation to higher gaining stocks in favor of lower gaining bonds, etc. will most likely be lower longer term returns, particularly if the change is made with prices well off their highs. This said, not everyone is wired to place belief in something not yet proven over the abject fear (Anguish and Despair) that you sometimes feel when your stock investments are being pummeled by others who don't share the same feelings about what you own.

So what?

Without conviction that the investment strategy we maintain suits your financial needs, objectives and your emotional makeup, you will surely fall prey to your emotions –from not gaining what the market gains in bull times or from fear generated when your investments drop like a diving seagull in bear times. Indeed, investing in rising markets is a cake walk, investing in falling markets a fire walk. Do take this away: More fortunes are made in falling (bear) markets than in rising ones.

Thank you for investing with us.

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