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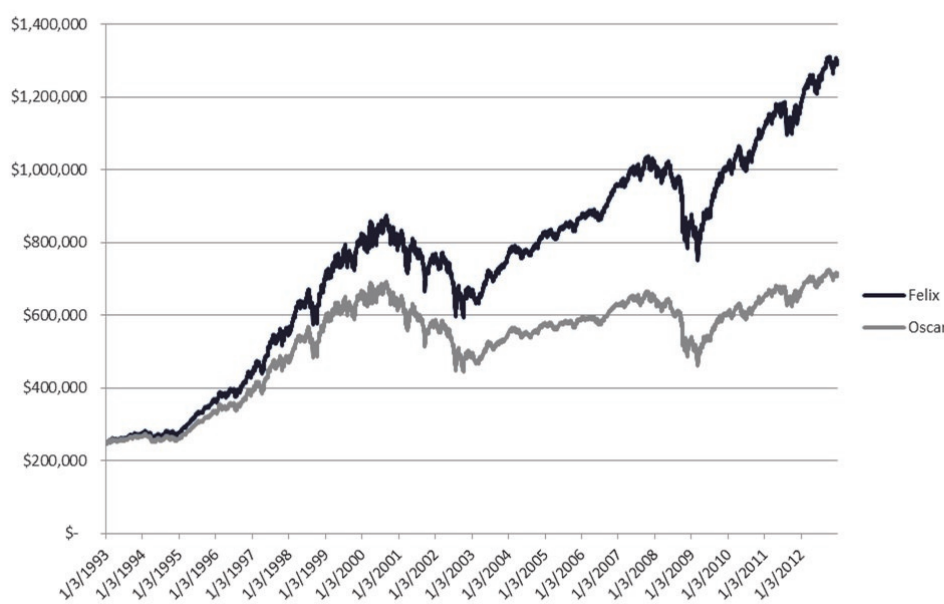
Cadence clips

FOCUSED ON WHAT MATTERS MOST.

Why is Felix's house cleaner than Oscar's?

For the 20 year period January 1, 1991 through December 31, 2010, the Dalbar Institute estimates the average balanced investor (an equal mix of stocks and bonds) earned a paltry 2.5% average annual return whereas the S&P 500 index and aggregate bond market split 50/50 over that period earned around 8.13%. We do not know Dalbar's full methodology but we understand it has its critics and considering Dalbar's clientele are financial services firms that could benefit from that disparity being large, we are naturally cautious. However, we do assume their methodology is accurate enough to estimate the average balanced investor over that period earned at least 3% less than he or she could have by just staying fully invested in a 50/50 stock and bond mix, rebalanced annually.

To illustrate how meaningful earning 3% less every year is, consider the situation where two neighbors invested $250,000 each on January 1, 1993. Neighbor 1, Felix, invests it in 25% bonds and 75% stock at first because he wants to be aggressive, but he's only 20 years from retirement so he wants to reduce his risk a bit. He rebalances once a year, and after 10 years gets even more conservative and has 50% in bonds. The other neighbor, Oscar, frequently takes his advice and follows the same general allocation over the years, but he also talks to people at work to see what they're doing, picks some investments based on how well they've done over the most recent three to five years, and rebalances a little more frequently and with less of a plan. Even though he seems to do fine over the years, his little moves reduced his returns by 3% per year each of those 20 years relative to Felix's. Below is the chart showing their values over time, and the table of how much each had at the end of every 10 year period.



	January 1, 1993	December 31, 2002	December 31, 2012
Felix	$250,000	$654,475	$1,301,518
Oscar	$250,000	$484,802	$714,391
$ Difference	$0	$169,672	$587,127
% Difference	0%	25.9%	45.1%

The difference snowballs over the years to the point where the well-intentioned but disorganized Oscar has nearly $590,000 less after just 20 years. Now, consider if the true difference between earnable returns and what the average investor achieves is closer to Dalbar's estimate. If you have 45% less money earning just 3% less every year, imagine 5+% less.

It's quite easy to reduce returns by 3% on average. It can be done systematically over time, or in one fell, ill-fated swoop by acting greedy and fearful at the wrong times. Common ways people have of reducing their returns include:

- Following the advice of someone they know who seems to know more than they do, like the coworker who knows a lot about the 401(k).
- Picking investments based solely on what they have done over the one, three, or five most recent years.
- Choosing a lot of different investments thinking they're diversified when they're really picking nearly identical investments.
- Systematically selling the worst performing investment (s) on a regular basis based solely on returns.
- Basing decisions on emotions, especially when that leads to selling after large drops and getting back in only after large gains.

We work to help clients minimize and eliminate these kinds of errors every day in a wide variety of ways:

- Using lower-cost investments when we do not feel paying more would yield a higher return.
- Trying to steer around wealth destroying moments in the financial markets, especially in our separately managed strategies.
- Integrating volatility reducing investments into our allocations.
- Re-evaluating our investment recommendations continuously.
- Maintaining relationships with the companies whose investments we use to stay informed regarding how the money is being managed.
- Helping during emotionally difficult financial markets.
- Providing the big picture view on an appropriate investment return target through financial planning.

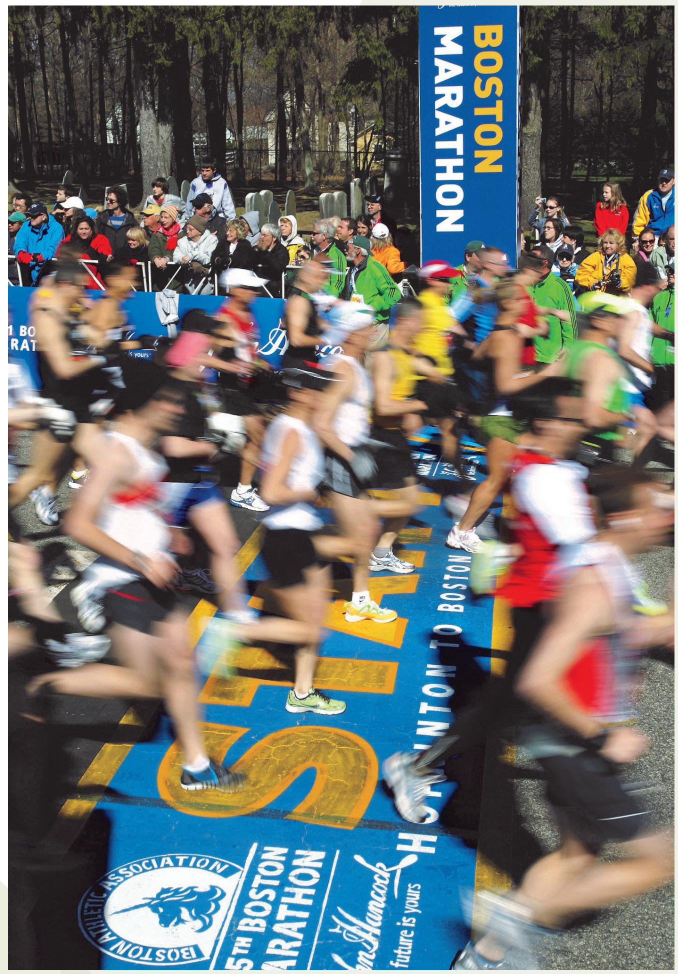
No diversified investment portfolio is going to earn more than the stock market every single year, and a lot of portfolios are not designed to do so, especially with conservative investors. If we can achieve our target returns over rolling five year periods, we know our clients will be more like Felix and less like Oscar. 45% more money pays for an awful lot of housekeeping.

Boston Marathon Fun Facts

The History of the Marathon

Upon the Greek victory over the Persians in 490 B.C., legend says that soldier Pheidippides ran 25 miles from the battlefield in Marathon, Greece, to Athens to deliver the news. After he arrived, Pheidippides yelled out, "Rejoice, we are victorious," then collapsed and died.

The marathon was reborn at the first modern Olympic Games in Athens in 1896 when 17 competitors ran the 24.8 miles (40K) from Marathon Bridge to the Olympic stadium.



Marathons of around 25 miles continued until the London Olympics in 1908. Although the length was originally intended to be 26 miles, with a start at Windsor Castle and the finish at White City Stadium, Queen Alexandra requested the distance be extended 385 yards — or to 26.2 miles — to the East Lawn so that the royal children could watch the race from their nursery. That distance would become the official standard of all marathon competitions in 1924.

The Boston Marathon is the Oldest Annual Marathon

Inspired by the Olympic marathon in 1896, the Boston Athletic Association kicked off its own marathon in 1897, which has been held every year since. Just 15 competitors lined up to run through Beantown in its inaugural year. The popularity of the race grew so much that by 1971, you had to have run the 26.2 miles in less than 3 hours, 30 minutes. To run in 2012, women ages 35 to 39 must run a marathon in 3 hours, 45 minutes or less, men of the same age must run in less than 3 hours, 15 minutes, in order to become one of the 25,000 runners to take the course on Patriot's Day.

In 1972, the Boston marathon became the first marathon competition to allow women to enter; the distance was previously considered too grueling. In 1984, the Olympics opened the marathon competition to women.

Infamous Finisher

Perhaps no finish at the Boston marathon was as notorious as Rosie Ruiz's in 1980. After winning the women's competition in 2 hours, 31 minutes, 56 seconds, Ruiz was exposed as having joined the race near the finish line. Shortly after, her 1979 New York City marathon time of 2 hours, 56 minutes was revoked when it was discovered that she rode the subway to the finish line.

Source: www.everydayhealth.com

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Important Disclosures

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