physicianspractice.com

The Smart Way to be a Contrary Investor

by Steven Podnos, Md, Cfp • Aug. 31, 2015 • 1 min read • original

Building wealth in the stock market is something that happens slowly. The most important part is how much you save and for how long you do it. The investment returns will be less important, except over decades. Trying to time the market will most likely cause you to significantly underperform the averages in the long term.

However, there is a way to possibly increase your long-term returns, which is to invest with a "tilt" towards asset classes/regions/sectors that are doing poorly.

We know that various asset classes (foreign developed country stocks, emerging markets, domestic large capitalization stocks, etc.) all move in cycles over several years. Google "the periodic table of investment returns" to see a nice graphical illustration of this phenomenon.

We also know that over long periods of time, those asset classes with higher valuations (historically speaking) tend to do worse in the future than do those asset classes that look inexpensive.

Putting these two factors together suggests that buying asset classes that have either gone down in recent years, or have done poorly relative to other more successful sectors is a good strategy. For example, at this writing, the American market has been strong for years, while emerging markets (which were the powerhouse of 2000-2010) have been flat to down.

The contrary investor would want to "tilt" the portfolio more towards emerging markets at this time, for the reasons mentioned above. This could be done by rebalancing a fixed portfolio—which means selling some of the asset classes that have become more expensive, in order to buy the cheaper asset classes. Or, if new money if coming into a portfolio, it would mean buying heavily in the cheaper asset classes rather than just buying along the old allocation.

Recognize that this is both hard to do and will take potentially years to see it work out well. It is in our very nature to want to buy the winners and sell the losers. Successful investing often involves doing exactly the opposite. It also requires the patient discipline to wait for rewards.

Just how contrary you want to be is up to you and your advisor. It may mean (again) just

rebalancing your existing portfolio back to its usual allocation based on percentages invested. It may mean adding new investments just because they are now attractive based on price. It also may mean doing both.

Original URL:
http://www.physicianspractice.com/articles/smart-way-be-contrary-investor