If you want long-term financial success, don't try to 'beat market'

LOCAL

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- It is extremely unlikely for an individual investor to consistently "beat the market" over the long term.
- Investors should align their asset allocation with their individual goals, time horizon, and risk tolerance.
- Focusing on tax-efficient strategies and sound financial planning is more likely to lead to success than trying to outperform the market.

Q: How can I find investments that “beat the market”?

A: You can’t with any certainty and will risk the opposite (underperforming). I’m often asked about modifying an investment portfolio to “be more aggressive” and/or “try to beat the market.” I wish it were possible but know it is not. Any non-sales-oriented investment advisor should tell you the same.

If we are talking about selecting individual stocks and industries that might outperform the index they belong to, this effort is extremely unlikely to succeed for very long (if at all). Study after study clearly reveals that only a very small percentage of full-time investing professionals can get returns that exceed the broad market return of the assets they use. Knowing which of those rare individuals will succeed in advance is impossible. Beating the experts yourself over the long term is also unlikely.

However, there are many things you can do to improve your long-term chance of financial success (and almost certainly “beat” the returns of most of your neighbors and friends).

First, choose your asset allocation decisions based on your individual goals and situation. One example might be avoiding stock-based real estate investments for a family that owns a significant amount of real estate. Another example might be avoiding putting stock from an individual's employer in their pension plan (if so, you have both “job risk” and investment risk if something happens to your employer).

Additionally, you should match your asset allocation decisions based on specific family goals for investment returns. A primary goal here is to match investments to goals, not to "returns." A simple example is keeping funds that are needed short term in safe short term fixed income (like Bank CDs) rather than exposing them to stock market volatility. Conversely, long term retirement savings should often be invested primarily in equities. On the other hand, if you have more than enough saved for retirement security, you may elect an investment strategy that just keeps up with inflation and taxes and has a reduced exposure to volatility.

Trying to time the market? Don't

Avoiding unnecessary losses is crucial. Investing on a hunch or hot tip is almost never successful. Trying to time the market rarely pays off and usually creates losses, either in true dollars or in lost opportunity to make a higher return. Not understanding what you invest in is also fraught with danger (annuities!!). Avoiding sales-based investment advice is a wise choice over the lifetime of your investing life.

There are many strategies that can be considered to both increase long term income and reduce taxes. These include retirement fund withdrawal strategies and timing of Social Security benefits (and many others). There are "tax efficient" methods of both investing and taking investment withdrawals. There are many individual family decisions that can make a large difference (how to handle life insurance at retirement, taking a pension as a lump sum versus a stream of income, etc.).

All of the above methods are far more likely to lead to success than trying to "beat" the market.

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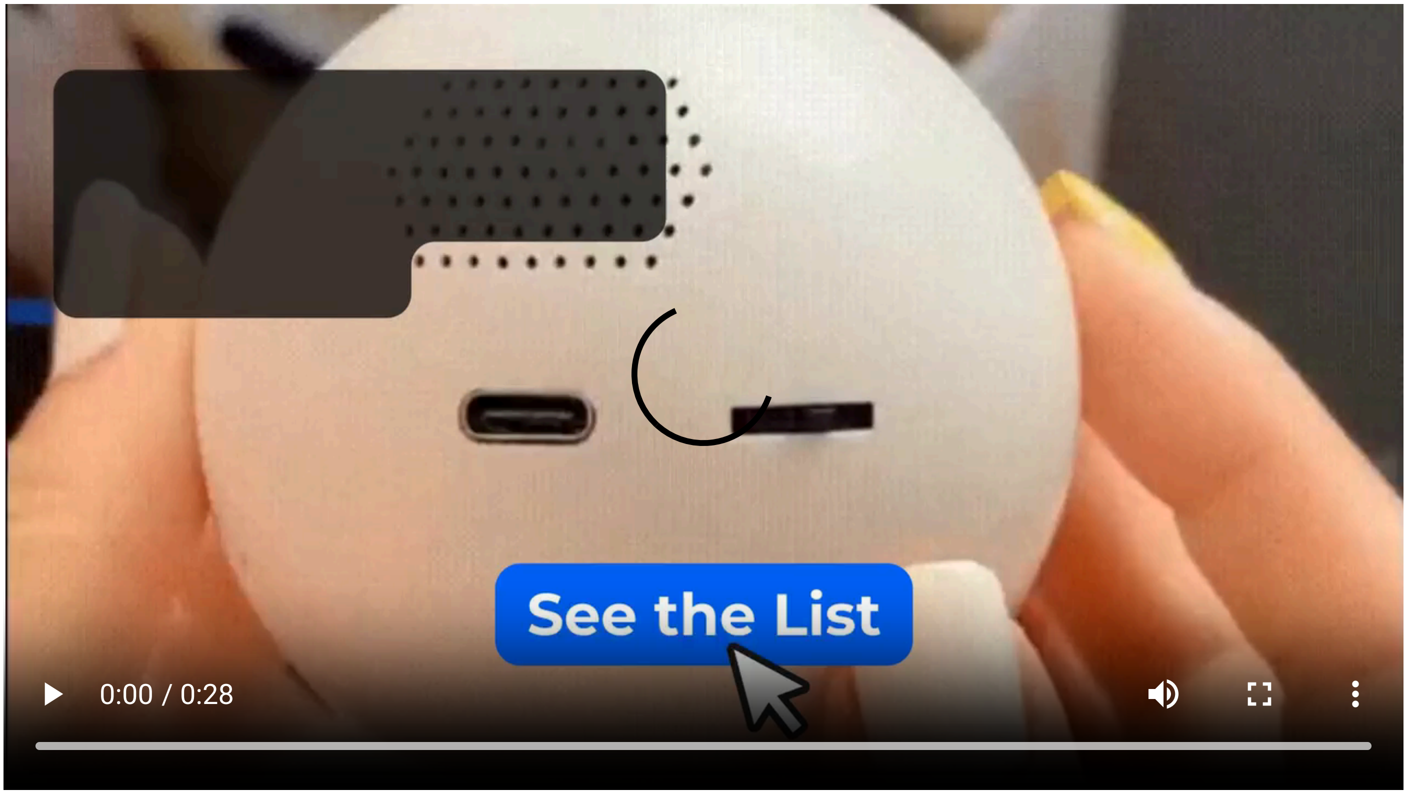
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