Woody Allen: Investment Guru

Most people don't associate movie director Woody Allen with sage investment advice. The four-time Academy Award winning director is certainly known for funny lines and exploring the quirky side of the human condition, but not as a challenger to Warren Buffett for folksy quotes about investing.

"Eighty percent of success is showing up," is a well-known truism attributed to Allen. While the quote wasn't specifically referencing investing, like many Allen observations, it applies to various facets of life.

So what does showing up have to do with investing? Doesn't a successful investment strategy require intelligence, hard work and opportune timing?

Ark Royal Wealth Management believes a successful investment experience is closely tied to "showing up" in the market each and every day. Those who try timing the ebbs and flows of the market, who fall victim to the fads and fears of the moment, or mistakenly equate volatility with risk may be absent from the market from time-to-time.

History shows that missing just one day in the market can have a big impact. Of the many roles a professional advisor plays, soothsayer or "seer" is not one of them. The truth is that no one knows what will happen next in investment markets. And if anyone really did have a working crystal ball, it is unlikely they would be plying their trade as an advisor, broker, or CNBC talking head.

At the end of the day, odds are you'll enjoy a far more successful investment experience by listening to Woody Allen -- when the market takes attendance each day, be sure to answer "Here!"

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Straight Outta Austin

Earlier this summer the biopic Straight Outta Compton was released to critical acclaim. The movie chronicles the hip hop band NWA, considered one of genre's pioneers in the late 1980s. I'm not a devotee of hip hop, but my kids listen to it and over the last 25+ years it has become part of the mainstream popular culture.

The hip hop genre popularized a style of music considered revolutionary at the time; music by black musicians confronting the challenges urban blacks faced in dealing with the establishment. The lyrics were raw and the music emphasizing rhythms with R&B and Caribbean influences and rhyming patterns. What was also surprising was how the music quickly became popular with a young, white affluent audience. Over the intervening years hip hop music has evolved, becoming more mainstream while also morphing into sub-genres. The five founding members of NWA were "creative disruptors" – with several becoming mainstream music / media stars, actors and entrepreneurs.

So what does this have to do with investing?

As recently as 1990 there were only 15 index mutual funds, and funds using an index or markets based investment strategy accounted for less than 7% of total mutual fund assets. The revolutionaries of investing during this period were academics Eugene Fama and Ken French, as well as Fama's pupils David Booth and Rex Sinquefield, who formed Austin, Texas based Dimensional Fund Advisors (DFA). In the mid-1980's, the concept of accepting market investment returns was considered heresy and dismissed by the Wall Street investment establishment. These "creative disruptors" within the investment field changed the landscape, and today nearly 30% of mutual fund assets employ a markets-based strategy.

DFA continues to leverage the feedback loop between academic finance research and portfolio construction. Each fall for the last decade I've traveled to Austin for the DFA Advanced Conference, a two day confab where select advisors learn more about where the research in finance is taking DFA. What I gleaned this year is recent research on profitability and higher expected returns provides valuable insight into which stocks to avoid including in portfolios. And I have no doubt that in the years ahead research will yield additional insights into enhanced portfolio construction. The revolutionaries have been, and continue to be, Straight Outta Austin.

Cornerstones of Ark Royal Wealth Management

- To nurture a culture that puts our client's interest first – always
- To be truthful at all times, to be intellectually honest with ourselves and with our clients, even if it isn't what they want to hear
- A commitment to lifelong learning, and a passion for applying wisdom efficiently and effectively every single day
- Align what you say, what you do and what you think to honor yourself, your family and our firm

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Is Your Identity at Risk?

Over 10 million Americans will fall victim to identity theft this year according to the Federal Trade Commission. The most common cases involve victims having their credit card information unknowingly compromised. Several years ago during a trip to Florida I was the victim of a credit card "skimmer" during a transaction at a large gas station off I-95 in southern Georgia. Unbeknownst to me, when I entered my card at the pump a device read my information off the magnetic strip. By the following morning, charges of over $750 had been made with a VISA card at a Tennessee Wal-Mart!

Consumers aren't generally responsible for fraudulent charges of this kind, and fortunately I was able to use another card the remainder of my trip. I also learned a valuable lesson to be vigilant when using any point-of-sale device that reads the card's magnetic strip.

Some thefts take the form of scams. I know of an elderly person who received a phone call purporting to be from her grand-daughter traveling in another state. The caller claimed to have been in an auto accident that injured someone and if her bail of $2,000 wasn't posted she would go to jail. The caller instructed where to wire money and regrettably the person complied, only to find out a day or so later she was the victim of a ruse.

A more insidious form of identity theft occurs if someone gets your personal information (driver's license, social security number) and becomes your nefarious doppelgänger. Sophisticated criminals can buy cars, homes and even get consumer finance loans as though they were you, racking up tens of thousands of dollars of charges, completely without your knowledge. Victims typically only become aware anything is amiss months after the fact when they apply for credit or start receiving dunning notices. A fellow advisor in my study group has a client that recently went through this and it took months and an enormous amount of time to finally clear his record.

Here are some tips that may help you avoid becoming a victim of identity theft:

- Don't share personal account information over the phone or via email.
- Make sure to shred any receipts, statements or sensitive financial info.
- Check your credit report annually (you're entitled to a free report each year) for any unusual items.
- Credit monitoring services – several companies (Lifelock, AllClear ID, etc.) offer a "for fee" service that will alert you to any new credit applications attempted with your social security number.
- Credit "freeze" – this strategy allows you to seal your credit reports and use a PIN to "thaw" your report for any credit applications you initiate. Credit freezes are done through the three credit bureaus (Transunion, Equifax, and Experian) and have small fees associated with them.
- Many homeowner insurers offer an identity theft rider at a reasonable cost. Make sure to review the policy's limits and exclusions.

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And It Was Ever Thus

The Standard & Poor's SPIVA mid-year report on mutual fund performance arrived in mid-September and the results were more of the same. The ARWM approach to investments is to go where the academic research leads. Decades of academic research indicates not employing a markets-based investment strategy leads to the vast majority of investors to experience inferior results. The SPIVA data below is just the latest evidence of this.

Most investors would do much better for themselves if instead of trying to beat the market, they simply embraced the market. The ARWM approach puts the emphasis on not underperforming one's own investment plan, and by so doing leads to outperforming the majority of one's investing peers.