FALL 2015

The Smarter Investor

Avoid the Investment Noise

"Today's investors find it inconceivable that life might be better without so much information. Investors find it hard to believe that ignoring the vast majority of investment noise might actually improve investment performance. The idea sounds too risky because it is so contrary to their accepted and reinforced actions."

So writes the Richard Bernstein in his book Navigate the Noise.

Why the Noise?

At the time he provided this highly useful insight, Bernstein was Chief Investment Strategist at Merrill Lynch. What makes this a particularly interesting statement is that his then-employer (not to single out Merrill Lynch) is responsible for putting out much of the very noise Bernstein decries.

Many entities -- not just investment firms, but also magazines, broadcast media outlets, newsletter publishers and the financial media in general -- have a vested interest in investors becoming hooked on investment noise.

Why? Because greater traffic and attention helps drive their profits. The interests of the financial media are not necessarily aligned with the best interests of investors. The winning strategy for them is highly likely to be the losing strategy for you. What's more, there are far better and more important things to do with your time.

Below, we'll discuss areas in which paying attention to the noise can cause investors to stray from even a well-thought-out investment plan.

Diversification

Perhaps the most important, and most thoroughly understood, concept in the field of risk management is that diversification remains the best and simplest tool for reducing risk. Combining assets, or asset classes, where performance isn't expected to have perfect correlation can reduce the overall risk of a portfolio.

Paying attention to the often urgent noise of the moment, however, can lead investors to abandon their diversified strategy and chase the latest mania, be it social media, tech, biotech, bowling alleys (yes, there was a bowling alley bubble) or tulip bulbs. Investors also often make the mistake of believing that diversification works "by the numbers." Owning 10 different mutual funds isn't effective diversification if they all own the same group of U.S. large-cap growth stocks; that type of diversification only reduces single-stock risk.

Goal Setting: Stick to Your IPS

No good businessman would start a company without a well-thought-out plan. And no bank or venture capital firm would finance a business that didn't have one. Yet many investors begin investing without something similar. For investors, that "business plan" comes in the form of a written and signed investment policy statement (IPS) that articulates the goals and risk tolerances of the individual (or pension plan, profit-sharing plan or endowment).

The IPS should include both specific asset allocations and a rebalancing table. Most importantly, it should be signed by all the parties involved as a reminder that they have carefully thought out the plan and made a commitment to maintain the discipline required to stay the course. The plan should only be changed if the investment horizon shortens and/or risk tolerances and the need to take risk is altered due to life events (such as death, divorce, inheritance or job loss). Market noise causes investors to stray from their plan as they chase hot sectors, search for the next Google, or panic in down markets.

TED Talk: The Art of Stillness

Link: http://www.ted.com/talks/pico_iyer_the_art_of_stillness#t-4025

Constant movement and nonstop distraction fill our lives. Travel writer Pico Iyer speaks to anyone who is seeking serenity amid the overwhelming demands of our world and offers ways to "take back a few minutes out of every day, or a few days out of every season.

A touch of peacefulness can make a major impact on your life. In this TED Talk, which has been viewed more than 1.75 million times, Pico shares his wisdom, such as:

"In an age of acceleration, nothing can be more exhilarating than going slow. In an age of distraction, nothing is so luxurious as paying attention. In an age of constant movement, nothing is so urgent as sitting still."

Dan Solin on the Power of Meditation

"From my very first meditation session, I had an intense feeling of relief and relaxation. I could feel the muscles in my face relax. I reveled in the luxury of 'doing nothing.' I experienced an involuntary smile within the first minute of meditating. I understood for the first time that it was OK to take a few minutes of every day and focus on myself, without that nagging feeling that I should be doing something else. … I became more conscious of the present and less focused on the past."

--- Dan Solin, director of investor advocacy for the BAM ALLIANCE, on the positive effects of meditating, as described in his book "The Smartest Sales Book You'll Ever Read"

Risk Tolerance

Assessing one's ability, willingness and need to take risk is an important part of the IPS process. Paying attention to the noise tends to lure investors away from their carefully thought out and constructed plan. The noise can make investors think that an investment is less risky than it really is. The perfect example was the dot.com mania of the late 1990s. Many investors were so certain these companies would succeed that they threw caution to the wind, abandoning their plans and the concept of diversification of risk.

How to Screen Out the Noise: Invest by the Calendar

If you happen to be one of those investors who simply cannot tune out CNBC or other financial media outlets, I offer the following suggestion: make your investment decisions by the calendar. A good way to do that is to analyze your portfolio's actual holdings on a quarterly basis to make sure it is within the tolerance levels laid out in your rebalancing table.

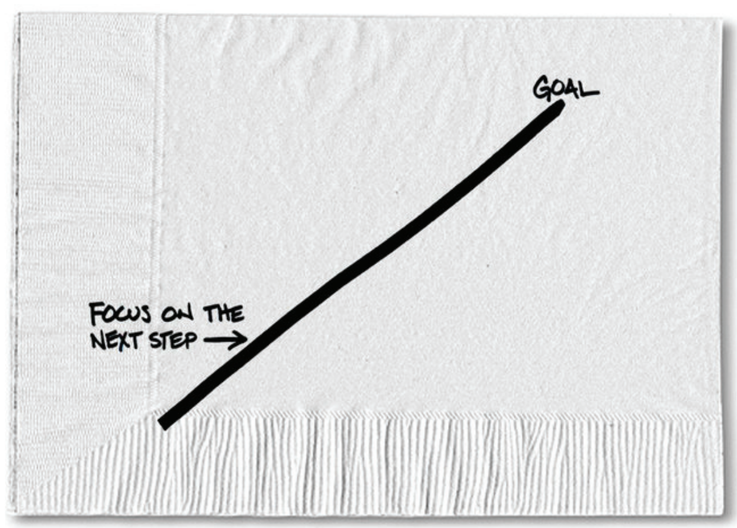
A quarterly review is also a good time to check for any tax-loss harvesting opportunities. Asset allocation changes should only be made because rebalancing tolerance levels have been exceeded, or a life event has occurred that impacts your ability, willingness or need to take market risk.

The Bottom Line

Investors would do well to pay attention to the following statement by Jonathan Clements of The Wall Street Journal: "Investors spend an absurd amount of time trying to control the one thing they can do the least about, which is their raw investment performance. They attempt to pick hot stocks, find star fund managers and guess the market's direction. Yet it is extraordinarily difficult, if not impossible, to do any of these things."

Larry Swedroe is director of research for the BAM ALLIANCE. This article originally appeared on Mutual Funds.com.

From the Sharpie of Carl Richards



"I know it's clichéd to say that the best way to accomplish a major goal is one step at a time. But the adage acknowledges something vital. We can control the next step, but we can't always control what comes after the next step. So why get worked up about whaty's way out on the horizon?"

Carl Richards is a financial planner in Park City, Utah and is the director of investor education at the BAM Alliance.

CLARIS ADVISORS
UNDERSTAND • INVEST • RELAX

Claris Advisors LLC
800 Market Street, Suite 500
St. Louis, MO 63101
314.655.5504
www.claris-advisors.com