

Investment Plans and Rain Delays-A Commentary

Dear Valued Clients & Friends:

"The reason our ideas haven't spread faster is they're too simple" - Charlie Munger, Vice Chairman of Berkshire Hathaway.

Investment philosophies can be as simple or complex as investors want them to be. Many investors believe that the more complex the structure or plan, the more valuable it must be. History is full of examples proving this belief to be wrong.

Unfortunately, financial institutions are well aware of these investor beliefs so they have marketed complex products and services. Maybe they will work or maybe they will not. Either way, investments typically do not move in one direction all the time. During those down periods, it is difficult to stick with complex plans or investments that are not easily understood. That is asking for trouble. The more complicated the process, the less effective it can become.



To help simplify our investment beliefs, here are ten considerations in developing an investment plan. You will see they are not complex. In no particular order, they are:

1. Embrace market pricing
2. Don't try to outguess the market
3. Resist chasing past performance
4. Let markets work for you
5. Consider the expected returns
6. Practice smart diversification
7. Avoid market timing
8. Manage your emotions
9. Look beyond the headlines
10. Focus on what you can control

Although a newsletter can be written about all ten, we are going to highlight managing your emotions. Taking some time to focus on the individual beliefs should lead to a better understanding and confidence that can be relied upon during periods of stress and excitement.

Manage Your Emotions

This might be the most difficult part of investor investment plans. Sometimes investors are the biggest obstacle between themselves and a successful investment experience. It is not easy to keep yourself from harming your own investment plan. Investors are constantly being told they need to invest in a certain way:

- Sell stocks because of (fill in the blank) or
- Buy stocks because of (fill in the blank).

Then all you need is to Google the advice and you will have the support you need to go ahead with the advice. The constant among these messages is that some action is needed. Doing nothing is never the recommended action from media outlets. Even though this might be the best action, it is very rarely recommended. It is simply not a very exciting strategy. Can you imagine Jim Cramer (star of investment show "Mad Money") advising viewers to regularly stay put? Even the name of the show itself is an attempt to stir viewers' emotions. Boring strategies will not increase viewership. Major media outlets are successful if they are able to sell news, not whether their strategy discussed is eventually successful. Knowing and remembering the incentives of the advice provider (i.e. media) is valuable knowledge.

Rain Delays for Investors

After becoming a little league baseball coach, I view baseball games in a much different light. As a reader of our newsletters, you have seen this analogy more than once so I apologize for the frequency. However, I am continually amazed how often the simple things in baseball can translate into the investment world.

As many of you probably watched, the Cubs finally won the World Series. There was a long list of many things that contributed to this drought ending.¹ Some of the reasons are a little more obvious than others. Despite those obvious reasons, who would have thought that the potentially missing ingredient in these past 108 years was a rain delay?

The Cubs gave up three runs in the bottom of the eight which tied the game. The players (and fans) began to recall all the bad memories that happened to past teams and probably started to doubt the process that had gotten them to the final game. A normally confident group was taken back by a homerun, a low probability event happening as their best pitcher had not given up a home run since June and gave up only two all year before this game. Then something happened to give them their confidence back, a rain delay. The Cubs players talked about a team meeting that occurred during the short rain delay that allowed them to revisit their plan. They took advantage of the pause in the game to block out the noise that had crept into their head. They went back to trusting in the process that they had worked so hard to build. Had it not been for this delay, I am not sure the Cubs would have gotten the result they wanted.

Investors would also be better off if at times they were forced into "rain delay". This would allow for emotions to calm down. It would force investors back to their plan and nudge the investor back to the prudent action. In many cases, this prudent action will be the simple answer that was contemplated when the original plan was being built. Knowing yourself and how stressful situations affect us all is a great start to any investment plan. World Series MVP Ben Zobrist said, "We're normal people. We get nerve-racked and anxious just like everybody else. We just have to trick ourselves into believing it's not going to affect us."² A simple answer, but not an easy answer.

¹The media has done very well financially given all the advertisements sold due to people listening to analysts describe in detail those many things.

²Skrbina, Paul (2016, November 3). *Ben Zobrist named World Series MVP after go-ahead double in Game 7*. Retrieved from <http://www.chicagotribune.com/sports/baseball/cubs/ct-ben-zobrist-world-series-mvp-spt-1103-20161102-story.html>

Conclusion

For reasons we continue to discuss, investment philosophies and plans should not be overly complicated. They should be backed by objective, academic research but also should be simple enough to be revisited and relied upon during both the ups and downs of the normal market volatility. Finally, to be MVP of your investment portfolio, know your emotional tendencies and your plan for dealing with them when tense moments arrive (or when media outlets tell you they have arrived). Like baseball players, all investors get nervous, but the better ones know how to recognize and manage those emotions.

As always, we appreciate your business and stand ready to discuss and review any changes or updates in your personal situation. If someone you know would benefit from this newsletter, please feel free to pass it along. We look forward to continuing to serve you in all of your investment and planning needs.

For those Cubs fans reading this, you have waited long enough. Congratulations and enjoy your year!

Matt Miler, CPA, CFP®

Scott D. Grittinger, CFP®
Matthew T. Miler, CPA, CFP®
Jacqueline A. Schneider, CFP®
Amy L. Finley
Alicia A. Nordwig, AAMS®
Robert P. Kult, CPA
Maggie Mayer
John T. McCarthy Ambassador