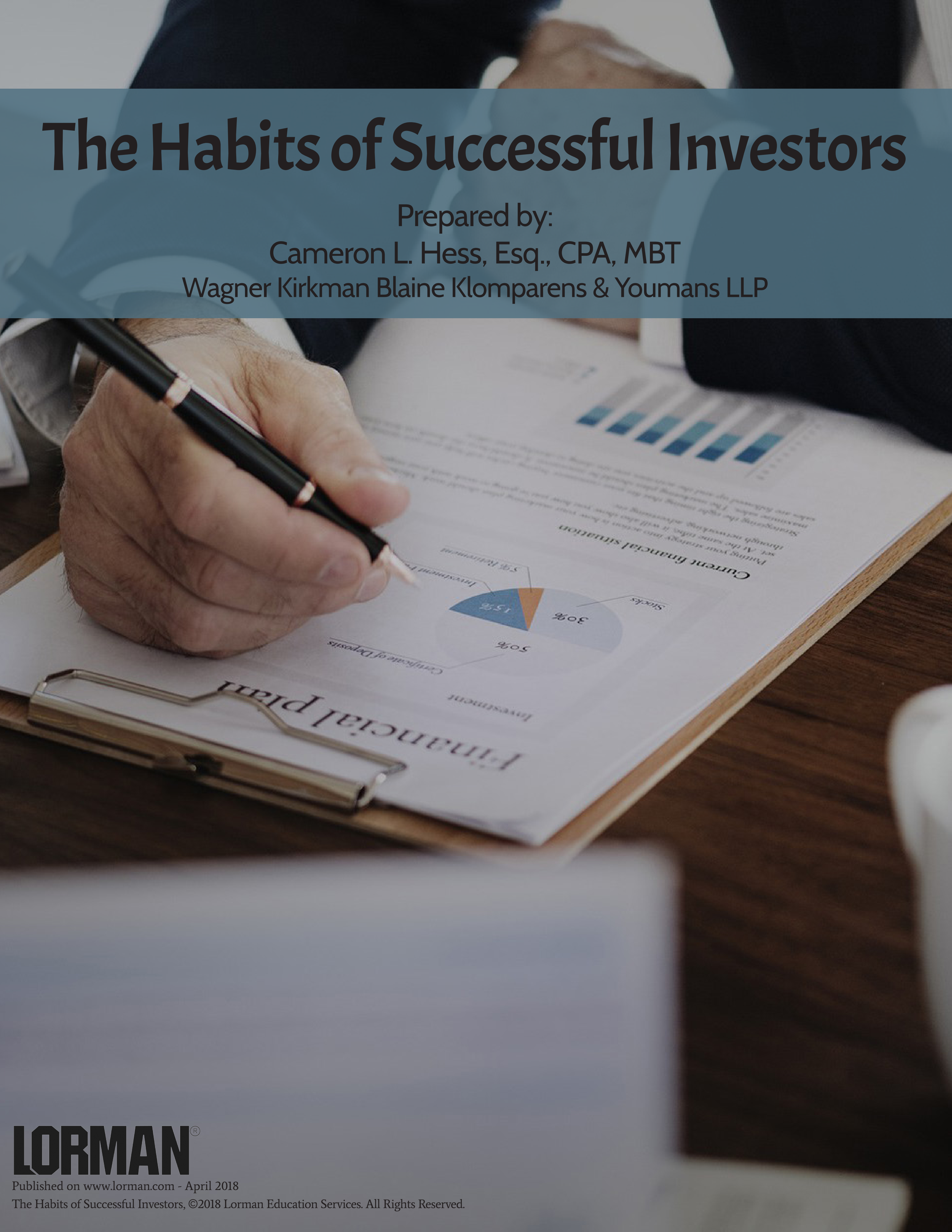

The Habits of Successful Investors

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The Habits of Successful Investors

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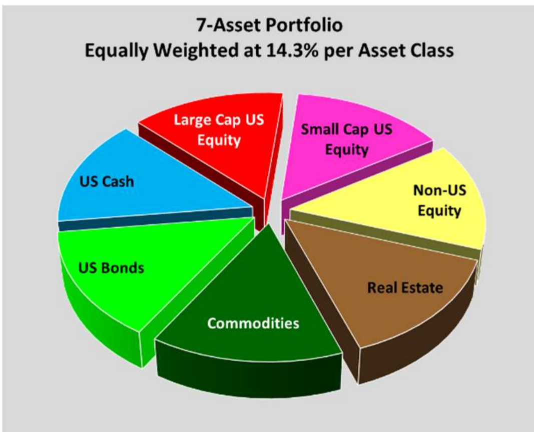
First habit: Successful investors have reasonable expectations.

Your investment portfolio will not have "above average" returns each and every year. Be reasonable! This isn't Lake Wobegon where all the children are above average. The average return of a diversified 7-asset equally-weighted portfolio (see pie chart below) that included equities (another term for stock), bonds, real estate, commodities, and cash was 9.82% over the past 47 years (1970-2016). There were some really good years when the performance of the diversified portfolio was above 20% (such as in 1975, 1976, 1980, 1983, 1985, and 2003). In those "good" years the successful investor did not crank up their performance expectations of the portfolio—somehow believing now that it's going to pump out 20+% returns year after year. Likewise, over the past 47 years there have been some discouraging years with negative returns in a diversified portfolio (-5.38% in 1974, -3.41% in 1990, -5.51% in 2001, -1.57% in 2002, and -27.61% in 2008). Successful investors don't suddenly lose faith in the portfolio because it stubs its toe a few times.



If your investment portfolio design is based on long-term performance expectations you have to give it sufficient time to show its stuff. A reasonable way to measure the performance of a diversified portfolio is over 10-year periods. For example, over the 47-year period from 1970 to 2016 the diversified 7-asset portfolio shown above never experienced a 10-year negative return. In fact, the average 10-year rolling return (there were 38 rolling 10-year periods between 1970 and 2016) was 10.5%. Successful investors understand that "long-term investing" is measured in years, not months.

Second habit: Successful investors discipline themselves.

Successful investors discipline themselves across two key behavior patterns:

Adequate savings rate during the accumulation years (the years prior to retirement). Successful investors recognize that a well-designed retirement portfolio has to be adequately fed. Set a goal to invest 10-15% of your annual income into your retirement portfolio. But, if you can only save 4% right now—do that. Focus on what you can do--and then consistently do it!

Systematic rebalancing is another common behavior of disciplined and successful investors. Rebalancing a portfolio keeps the various ingredients at their assigned allocations as the years go by. This is accomplished by withdrawing money from your mutual funds that performed best during the prior period (often 1 year) and investing it into the mutual funds which performed poorest. This is the part of rebalancing that may seem counter-intuitive, but is exactly how we achieve the basic mantra of investing which is to "buy low and sell high". Except that the order is reversed: you sell high and buy low in the process of rebalancing. Rebalancing requires courage—the kind of courage that is characteristic of successful investors.

Third habit: Successful investors diversify and then measure investment success correctly.

Building a diversified portfolio is like making salsa—we blend a variety of different ingredients together. The result is greater than the sum of the parts! After building a diversified portfolio successful investors measure it correctly. Some investors may be tempted to compare their diversified portfolio against the S&P 500 Index – but that is nonsense. The S&P 500 is not a diversified portfolio, but rather 500 large US companies. It contains no bonds, no real estate, no commodities, and no foreign stock. Consider this: the S&P 500 represents 500 different varieties of tomatoes whereas a diversified, multi-asset portfolio represents salsa!

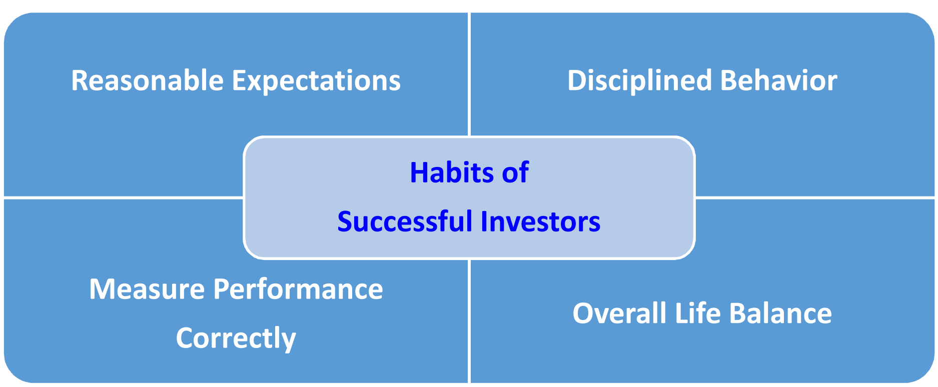
Building a diversified portfolio is like making salsa

Fourth habit: Successful investors lead balanced lives.

This statement does not imply that successful investors don't face challenges in their lives—they most certainly do. But, successful investors tend to focus on things that are going well, rather than things that are not. They focus on progress, rather than distance from the goal. In short, successful investors have a balanced perspective on life that acknowledges challenges and struggles, but with an overriding spirit of optimism and courage.

Successful investors not only have diversified portfolios, but they also lead diversified lives. This type of life balance provides the needed anchors when one aspect of life takes a severe blow. Physical, emotional, social, and spiritual balance are all needed—all the time. Without life balance, small issues are often blown out of proportion into big issues. Even worse, non-issues can become major obstacles without a balanced perspective. Successful investors recognize that wealth is not the end goal, but a means to accomplish one's life goals. *They realize that money is a magnifier—for better or for worse.*

In summary, successful investors have a healthy life balance, are reasonable in their expectations, disciplined in their behavior, and measure success according to their own specific objectives and goals.



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