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SIMMONS ASSET MANAGEMENT

Strategic Investing.

Volatility: Don’t Get Bucked Off

Unless you’ve been living under a rock, I’m sure you’ve noticed a tremendous amount of negative news headlines lately. From oil, to ISIS to the Swiss Franc, there’s plenty to talk about. And there’s an abundance of things for the media to get you worked up over. To boot, there’s been a fair amount of volatility in the market.

Gyrations in the market come and go but tend to hurt worse when they are accompanied by a plethora of undesirable news. Take your pick, and it can feel like the world is coming to an end.

The market often has periods where it gets a little shaky, but these can go largely unreported. After a while, things normalize and the long-term historical uptrend resumes. Conversely, if there is headline after headline talking about these fluctuations, then people watch and worry more. Perhaps if we weren’t even aware we’d be much better off. Sometimes ignorance is bliss, and in this case it’s true.

Annual Report 2015

2014 began with extreme optimism after fantastic market growth in 2013. This time last year I forecasted around 5-10 percent growth in the market for 2014, a prediction that stayed true through the end of the year. I thought it was going to be a modest year, at best, and it was. Large caps and the major market indices did very well, however, under the surface, many other styles and asset classes had a subpar year. That means if you were a diversified investor you may have remained somewhat flat. I read a report recently that said the average asset manager was up less than 5 percent in 2014. When you consider the market was up roughly 11 percent, that tells you the majority of investors, professionals included, underperformed the market.

As we reflect on the past year and plan for the year ahead, I'm here to tell you that diversification is still key. There is no crystal ball to look into for 2015, but I'm predicting a similar scenario ahead. There is truly no way to know for certain, but I expect some areas to do well while others lag. If some of the underperforming areas of 2014 begin to outperform, it may happen largely unnoticed since they are not part of the major market indices that get the most attention. Last year, I felt my job was essentially to manage expectations in the market. While I will be doing the same this year, I also encourage you to spend time planning for your future rather than trying to forecast the short-term movements of the market. If you're getting married, having a baby, planning for retirement or living off of your retirement savings, I urge you to focus on yourself and your family this year and leave the worrying about the market to me — your trusted advisor.

Oil & The Many Other Things You Can't Control

If there's one thing I observe most in people, it's a tendency to focus on the 10 percent of things that matter least while overlooking the 90 percent that matter most. Oil is getting extreme attention in the media right now, especially in the South Louisiana/Texas corridor, and I find that people are either overly scared or excessively optimistic. Those who are worried are concerned about a global meltdown due to energy dependence within our economy, while those who are excited see it as an opportunity to invest for a “sure” return. What I rarely see is someone objectively looking down the middle saying the present situation really doesn't matter long-term. But that's where you should be.

If you're a long-term investor, you shouldn't be adjusting your portfolio for the short-term anyway. In this case, the best thing to do is nothing at all. The same goes for real estate, interest rates and what's happening in Europe. You can't control those things, so don't even try. If you ignore these short-term distractions and remain on your predetermined path, you will most likely end up far better off anyway.

Planning for Future Life Events – The More Important Focus

You're in the driver's seat when it comes to your own life, and a few smart decisions now can make a big difference later. The beginning of a new year is a great time to sit down with your advisor and do a periodic check of your situation. Are your beneficiaries outdated? Is your will up to date? Did your tax or insurance situation change? Did you receive an inheritance or an estate to settle?

Estate planning is the biggest area I see that people tend to overlook. You need a professional in every area, and I think it's important for you to sit down with the appropriate person and talk about things at least once a year. Where I fit in, in addition to managing investment assets, is helping you orchestrate everything. I often have clients who come to me and say, 'I'm running into this tax situation because …can you steer me in the right direction?' I know enough to know when somebody needs help and won't hesitate to refer you to the appropriate and trustworthy professional.

The Biggest Mistake People Make

Getting emotional at a birth, wedding or funeral is understandable. These events can majorly impact your life and draw more than a few tears. But getting emotional about financial planning can be detrimental to your portfolio. Often times, the business of investing is more behavioral and emotional than it is academic. The biggest challenge for me is getting clients to listen to reason when they are emotionally involved.

I'll use some of the smartest people in the world as an example. An interview by Barron's titled "Lessons Learned at Harvard" was released early last year. The magazine interviewed the CEO of Harvard Management, which oversees the university's $32.7 billion endowment fund. When the market crashed in 2008, the management company felt like it needed to make some major changes to its portfolio. So, the group reacted to the market and moved some money around to different alternatives. Unfortunately, as a result, their annualized return from June 2008 through June 2013 was only 1.7 percent, compared to the S&P 500 Index annualized at 7 percent. That is a tremendous difference.

Harvard's endowment fund, run by arguably the smartest people in the world, had not made up for the losses from the market crash. If left alone, anyone in an S&P 500 fund would have outperformed Harvard's endowment by a total return of 31percent over the previous five-year period. By remaining patient in an index fund, any Tom, Dick or Harry could have done nothing and performed better than Harvard.

Further, at the close of 2014, the S&P 500 was up an additional 28 percent from the date of that interview. It's safe to say that if left alone, not only would you have made your money back, you would have amassed a large amount more than you would have prior to the crash. While I don't have access to the updated Harvard numbers, I suspect they still have not come close to catching up. In their defense, the investment managers were probably under intense pressure from their employers and felt the need to justify their academic existence. I think this is a huge lesson for people. When the market does something extraordinary like crash or shoot up, 99 percent of the time the best thing you can do if you have a diversified portfolio is leave it alone.

Contributions and the Art of Rebalancing

Not everyone is going to have the same portfolio, but for most long-term investors, I thoughtfully distribute investable assets across many different asset classes, styles and sectors. In the short-term, there isn't much change necessary if you have a diversified portfolio. Reasonably speaking, the only two changes that are ever needed are allocating contributions and rebalancing existing assets.

As an example, let’s take growth and value stocks during the dot.com bubble back in 2000. If you were heavily invested in these and had rebalanced your position out of growth and into value, when the market crashed you would have lost less money. Prior to the crash, growth stocks outperformed, but after the crash value did much better considering. If you enjoyed great returns in growth stocks leading up to the crash and then subsequently rebalanced into value stocks, you would have enjoyed positive return on the upside, while decreasing exposure to sharp drops on the downside. Of course, it’s never perfect, but making sure you never become overexposed to areas trading at a premium and posed for a sharp pullback reduces risk. Rebalancing also provides you with an option to find areas at a relative discount.

In my opinion, making consistent contributions and rebalancing are the main two things people should be doing right now. I don't believe the market has dictated that we do anything else. If anything, the short-term volatility should by all accounts provide good opportunities for long-term investors.

Time is On Your Side – The Real Secret to Making Money

The two most important factors as people get older are health and wealth. I find that it would be much more beneficial to the average person to spend less time fretting over the market and more time with their families and focusing on their physical wellbeing.

The secret to making money in any appreciating asset is time. It doesn't matter if you have antique furniture, a house or a stock. If it is an appreciating asset, then hold on to it, because the safest way to increase wealth is to stay diversified and let time do its job.

I realize it's not always easy to be patient and trust your advisor, especially when the noise appears. It could be from the media or when cocktail party talk turns to the latest stocks, fluctuating interest rates and price of oil. In the short-term, you may have to defend your position and develop a thick skin to stay on course, but in the long-term, I promise you will reach your financial goals.

Helping you become a better investor!

Mark Simmons
President

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