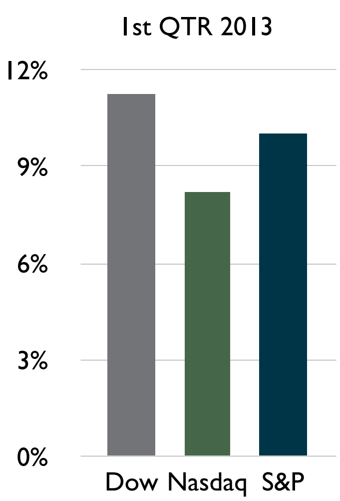
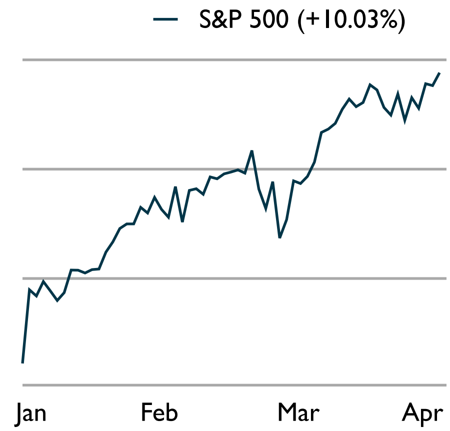
April 2013

SIMMONS Street NEWSLETTER

ISSUE TOPICS



The Tortoise and the Hare



Special Announcement

We've moved! We began 2013 by moving into a new location to better serve our clients. Our office is conveniently located in the heart of Baton Rouge with our clients in mind. Immediately off the interstate, a short drive from downtown, ample parking and easy accessibility to the building make a visit to our office hassle free. Please come by! Our address is 2431 South Acadian Thruway, Suite 240, Baton Rouge, LA 70808. For directions please visit this link: simmonsstrategy.com/contact-us

Opening Remarks

During the opening scene of the movie Office Space, one of the characters is driving in traffic. Upon noticing cars driving faster in the opposite lane, he decides to switch to the faster lane. Immediately after switching, he comes to a stop while all the cars in the lane he was previously in go racing by. Have you ever been caught in a similar situation? No matter how many times we switch lanes, being patient and sticking to the original one will help us arrive at our destination quicker than slowing ourselves down by trying to outwit everyone else. Often times it's best to stay the course and watch the hares go by.

Our focus in this issue is to outline what some of those hares are and help keep you on the tortoise's steady path to victory.

Investing is Like a Triathlon

A couple months ago, my wife, Jill, started training for a triathlon with a group of friends. I've been able to train with them a few times and enjoyed it so much that I've considered completing a triathlon of my own. I know it would take a considerable amount of dedication to complete one, along with commitment and assistance to condition my body for that sort of event.

Jill and I were talking about the difference between using a general conditioning plan off the Internet vs. finding an individual professional to help along the way. We both agreed that using a general plan would yield, most likely, general results and be mediocre for most people. Conversely, we agreed that having individualized and personal attention would yield the best results with more accountability.

I know that I would not be satisfied with mediocre results. If I commit to something, I want to be above average no matter what it is. I'd rather have an individual help me access my strengths and weaknesses and guide me on a more successful path with less errors, less wasted energy and little or no injuries. I want to work smarter. I also want to have problems and weaknesses pointed out and corrected prior to building bad habits that slow down progress. I also want someone who will find my strengths and build upon them, monitor my progress and make timely and necessary changes when needed so I can focus on alternative business.

I don't want to be the person who does the same routine, with poor form over and over again with limited results. You see them in the gym every day. Some people are OK with mediocre growth, but not me.

I understand this is simply an introductory triathlon and my goal is not winning, but above all else, I want to do the best that I can. It doesn't matter what subject we are discussing, having a general and a one size fits all approach will yield average or sometimes even below average results. I run across this in my industry from time to time, whether it's a do-it-yourself investor who wants to use a discount brokerage firm or someone asking my opinion about a radio talk show personality. Obtaining professional services, regardless of the industry, and heeding their advice tends to yield better long-term outcomes, and the price paid is often earned in more ways than one.

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"THE INVESTOR'S CHIEF PROBLEM - AND EVEN HIS WORST ENEMY - IS LIKELY TO BE HIMSELF." BENJAMIN GRAHAM

Recently, Cerulli Associates completed a study that showed a rising number of investors leaving advisors because they feel they can do it on their own. As with all historical market advances, more and more investors are choosing to manage their own money through so-called direct providers by using general advice disguised to be individualized. Why not though, when the market is going up anyone can do it? Because it is also during the good periods that individual investors need professional advice as much as they do during the difficult stages.

When times are good, investors tend to become careless, but an investor's money is not necessarily made during the good times. It's how he positions himself during the marathon that will pay off.

Below is an excerpt by Nick Murray from his book Simple Wealth Inevitable Wealth:

"You can, theoretically, make a lifetime financial and investment plan yourself, fund it with an appropriately diversified portfolio of the right kinds of equity funds, and blissfully accumulate your way to wealth, ignoring all the manias and panics which will surely afflict the markets between now and the time you retire. You can then — still all on your own — decide how those assets are to be deployed in retirement, such that you can withdraw a lifestyle-sustaining income that keeps up with the ever-increasing cost of living, and still leaves a meaningful legacy to your heirs. None of this is, strictly speaking, impossible. The question: Is it probable?"

Murray goes on to say that it's not probable. There's just no replacement for a qualified, committed financial advisor. According to Murray, "The value of that advisor to you and your family in incremental return, in mistakes not made, in time and worry you needn't expend trying to do it yourself will greatly exceed the cost of the advice."

He identifies three areas in which a professional advisor might add significant value to your probable do-it-yourself outcome.

1) He might increase your return by creating a portfolio better suited to your long-term goals than one you'd select on your own.

2) He might save you (the equivalent of his fee) in time, energy and worry that go into managing your own investments.

3) He might actually save you some multiple (of his fee) by coaching you out of making mistakes that cause most investors to underperform the markets and their own investments.

In terms of the value that I bring to my clients, I hope they understand that in the end we are not looking for mediocre results. We are also not looking for relative (out) performance, especially in any short-term duration. Our plan is much bigger than this. There will be times that require assessment, corrections, monitoring and maintenance. There may also be times when the best thing to do is nothing.

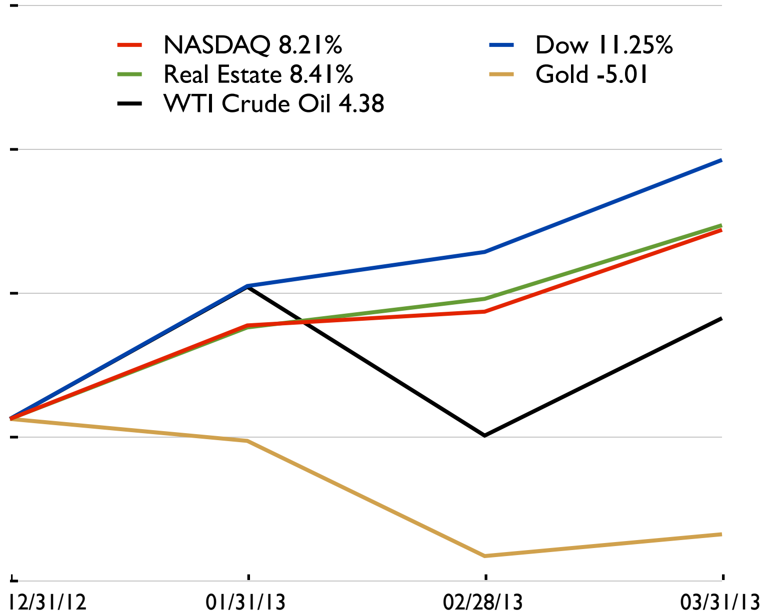
How to be on the Right Side of the Market During Every Advance

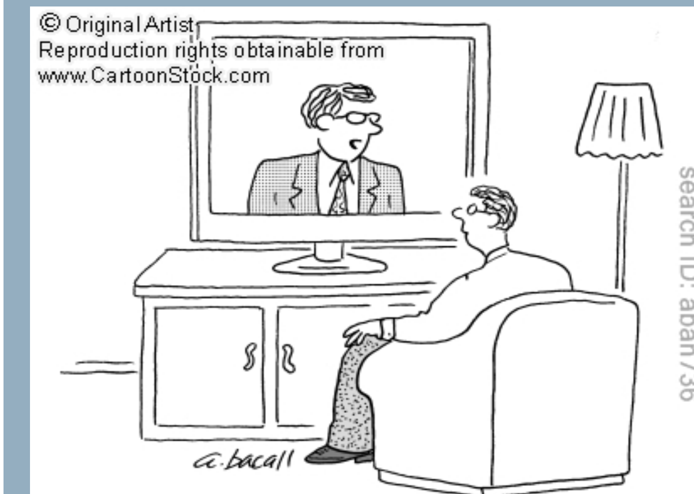
In the past few years, I've heard many investors say the buy and hold strategy doesn't work anymore. The major market indexes prove these people simply don't know what they are talking about and need to check their history. At time of this writing, the S&P 500 and the Dow Jones Industrials are at an all-time high, which is to say no matter when you bought, if you held through the bad times, you are better off.

The only way to participate in every market up move is to simultaneously be willing to hold during the down moves. If the market is historically up three out of every four years, why not just sit through that difficult period in order to capture all the gains that come along with the market's climbs? The catch, however, is that the 25% or so bad years tend to come in multi-year volatile groups. That means you may have to sit through some painful groupings of bad years to fully prosper from the good years.

Additionally, the market temporarily corrects, on average, about 14% every single year. That means even during a good year, you may see your portfolio temporarily lose 14% of its value. Even more, every five years the market corrects on average over 30%. I'm not trying to scare you; I'm just telling you the rules of the game and what you need to be prepared to sit through in order to maximize exposure during the good times.

Some people say it's easy to follow a long-term investment strategy in the good times, while the hard part is sticking with it during the bad times. I think it's hard for people all the time. In many cases, during the good times, the investor may not be satisfied with the steady progress and hungers for more. A worthy investment plan generally takes all market environments into consideration in order to maximize gains while minimizing losses and mistakes. An investor might not understand that having an average return during the good times and minimizing the damage during the bad times is the best receipt for long-term success. This plan may also keep investors well positioned to minimize damage during the bad times and prepare for advances during the good times to come.





"Welcome to 'Should've, Would've, Could've', the investment hindsight show."

If, as an investor, you reduce mistakes during the tough times and maintain, at a bare minimum, a decent return during the good stretches, you are already light years ahead of most investors. The name of the game is minimizing mistakes.

In our microwave society, most investors hate the general terms used by advisors, such as stay the course, over the long-term, etc. These are the ones that usually bring the largest value, albeit intangible, and the ones that are most difficult to accept in our I want it now and good isn't good enough mindset.

Volatile markets both up and down can cause investors to abandon their long-term goals for short-term strategies that satisfy their acute desires. The market has undergone cycles with high and low annual gyrations from positive 38% in 1995 to a negative 37% in 2008. It can be tough to stay the course in the face of such diverse fluctuations. With a disciplined approach to investing, one may be able to take full advantage of market rebounds and enjoy superior returns in the long run, as long as portfolios are not sidelined by major and minor market expansions and contractions.

How has Your Portfolio Performed?

As of April 1, the general market indices were up roughly 10% year to date. How does your portfolio compare or does it even matter? Evaluating relative market and other investor performance and making decisions based upon these nearsighted views is counter-productive to most people's long-term objectives. There is plenty of evidence out there that proves when investors change strategies based upon performance and return, their portfolio values suffer.

Even more, there will always be a fund, a manager and asset class or sector that can — and will — outperform in any short-term duration. The hardest thing with the tortoise strategy (the one I advise and pursue myself), is that there will always be some hare temporarily passing by. It is generally these "hurried" hares however, that have the worst long-term performance result in the end. While the average market indices have returned nearly 10% annually throughout time, the average investor has only returned about 3%.

You see, it's not chasing what's hot, for fear of underperforming, that's going to make us successful. The major determinate to long-term success has more to do with investment allocation and maintaining faith, patience and discipline than it does with investment selection and timing. An advisor's job really shouldn't be about the outperformance of other managers or even the market. One of the jobs of an advisor, in addition to defining a client's goals and objectives, is the outperformance of the average investor. Our job is to keep you from making the same mistakes that most average people make.

I realize this vision isn't sexy or exciting and to compound most people cannot admit that they are susceptible to the same common fallacies as everyone else. Investors who attempt to time the market and jump on hot investments (after their big advances), run the risk of missing periods of positive returns. The only way to capture all of the permanent returns in the markets is to simultaneously be willing to absorb all of the temporary declines.

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"I'm only rich because I know when I'm wrong...I basically have survived by recognizing my mistakes." George Soros

The Tortoise and the Hare

When the race begins, the arrogant, condescending hare immediately sprints way ahead of the much slower, quiet tortoise. Confident of winning, the hare takes a nap halfway through the race and wakes to find the tortoise steadily crawling toward the finish line. The tortoise wins, in spite of his deliberate pace, simply because he was not distracted and steadily put one foot in front of the other and never stopped.

In investing, people often make similar mistakes when they try to time the market or leave planning until it's too late. They may only invest when the market seems strong, and they tend to sell when the market appears weak. Many investors become distracted by any number of interferences. No matter how many times you read this famous tale, the steady patience of the tortoise always beats the hare.

The markets have a habit of making investors fear things that really are not threats, while sideswiping us with things we never saw coming. The majority of people feel the biggest dangers are market fluctuations, underperforming, the government, corporate executives, Wall Street, Main Street and the list goes on. I'm here to tell you that these are not the risks. Sure, some things can temporarily change the value of investments, but the real risk to an investor's money is the investor himself. Susceptible to the same mistakes as everyone else, investors who fail to understand inflation and eventual longevity are the bigger risk.

Many retirees simply don't have enough money because they didn't realize that volatility, both up and down, were normal or they feared the wrong things. More so, these retirees acted upon them when the best action was humbly staying the course.

Closing Remarks

While many people are upbeat about the market, there are still some disbelievers who feel this rally is undeserved and poised for a major pullback. These cynics will always be part of a negative, fearful group. Success in the investing world isn't necessarily about being smarter or savvier than other investors. It has more to do with wealth that is slowly accumulated over time at the expense of other failed investors. That success may very well be directly attributed to character and resilience. The lack of these qualities defines the failed investor and forces him to make mistakes in defiance of all reason, logic and history.

We define ourselves not necessarily by what we accomplish but how we react and overcome adversity. Investing is a constant battle. The conflict takes place in both our own minds and the external distracting variables that are constantly being presented to us. It's a battle of investment survival. Having a strong mentality and accepting a slow moving approach consistently yields the best results.

Helping you become a better investor!

Mark Simmons
President

Disclosures