

Stock Market Strategy

"The biggest risk is not the stock market; it's really the individual investor..."

We at Balanced Wealth Management endorse an investing strategy called Modern Portfolio Theory. It is an investing technique that does not involve trying to time or forecast the stock market or speculate and gamble with your retirement future.

Modern Portfolio Theory does involve a lot of math, statistics, economics and financial know how, but the fundamental concepts are very clear and easy.

The basic Principles are fairly simple:

- Own Equities (Stocks)
- Diversify
- Rebalance periodically
- And...Don't get hung up on the details.

But...the biggest risk is not the stock market; it's really the individual investor that can trash the whole system. There is a company called Dalbar Research that has studied this phenomenon over a period of decades and compared the stock market rate of return with what the

typical investor earns on their investments. For example US institutional mutual funds have earned in excess of 9% while the typical investor has only earned a little over 3%.

Why? ...

The real problem is really three-fold:

1. Investors are impatient and don't stick with the program. This leads to selling and buying when they shouldn't, incurring excessive costs and fees and missing out on opportunities in good times and unfavorable market conditions.
2. Investors don't understand stock market volatility and how to manage it. They are often invested in unsuitable amounts of stocks or bonds based upon their risk tolerance and time horizon.
3. Investors are not properly diversified nor do they periodically rebalance their mix of investments. The

investing universe includes over 13,000 companies, spread among 19 distinct asset categories and 45 countries. We do not know which of these companies, asset categories, or countries will perform the best, so owning a majority of these is critical to maximizing your rate of return and reducing your risk. In addition, rebalancing your mix of stocks and bonds periodically takes advantage of stock market gains or allows you to purchase equities (stocks) at cheaper prices.

Properly designing your individual investment portfolio and staying disciplined is the secret to a successful retirement plan. With this comes clarity, confidence, and peace of mind.

~Chuck Rowan