

# When growth happens.

THE MARKET GROWS IN SHORT, INTENSE BURSTS.  
THE GOAL IS TO BE THERE WHEN IT HAPPENS.

Most people know that historically the stock market grows dramatically over time. Fewer people understand that it's not a smooth curve. Market growth is a series of intermittent sharp spikes, virtually impossible to predict or correlate to political or economic events. Here's a vivid illustration of this phenomenon. Between January 1990 and June 2010, there were 5,168 trading days. If you missed the 10 trading days with the highest upside during that period, you would have lost out on nearly half of the market's gains.\* Here are some practical lessons to derive.

## Market timing is a high-stakes gamble, not an investment strategy.

The image of the clairvoyant market timer is a myth. Some of the world's largest funds have enlisted teams of PhDs to try to time market movement—with very limited success. The “10 days” example shows how much you can lose by jumping in and out of the market.

## Think “long-term” and “low-cost.”

A long-term, low-cost orientation for investing significantly increases your chances of capturing market gains. It brings with it two major advantages. First, by trading less you reduce internal brokerage commissions at mutual funds—unpublished costs that can take a big bite out of your earnings. Second, “active” funds have high management fees and operating costs that reflect a high volume of trading and research. Examples of asset classes that have historically worked well over the long term are small-cap and value stocks and, on the fixed income side, intermediate bonds. Holding these investments at low cost increases your chances of success.

## Discipline is critical.

The market's volatility provokes strong reactions in investors. A good advisor applies strict discipline, so you don't let the emotion and psychology override intelligent decision-making. Discipline keeps you from jumping in and out of the market, decreasing the chances you'll miss these tremendously important days which historically account for nearly half of the market's growth. It includes automatic rebalancing among asset classes—in effect, buying low and selling high.

## Don't feed the Wall Street cash cow.

Wall Street is rife with conflicts of interest. Psychologically and emotionally, it's designed to induce you to trade a lot. This generates commissions and management fees for Wall Street firms. It has no correlation to growing the value of your assets. Mostly, it mutes growth by adding costs. To avoid conflicts of interest, identify an advisor or wealth manager who operates as your fiduciary. A fiduciary has the highest legal and ethical obligation to put your interests first, regardless of the impact on his or her compensation. A fiduciary isn't paid on a commission basis. This removes the incentive to recommend active or unnecessary trading. It keeps the focus where it should be—on developing and executing a strategy for long-term growth.

## In summary

Over a 20-year period, missing just 10 high-growth days in the market can cost you nearly half the overall market growth. To increase your chances of capturing growth, think long-term and low-cost. Avoid Wall Street, with its inducement to trade actively. Find a wealth manager who's a fiduciary. And commit to a disciplined program that keeps emotion in check, rebalances automatically and stops you from jumping in and out of the market.

\*Source: Morningstar, Inc. Market: Standard & Poor's 500 Index



Theo Gallier is chief investment officer at Private Ocean. He's helped affluent investors successfully navigate the markets for 25 years.

