

## **Pacing Your Portfolio for a Marathon** *Procedural Investing vs. Emotional Investing*

*By Ken Robinson*

While in my 20's, I ran marathons. At the beginning of one of my first marathons, I got caught up in the excitement and exhilaration of the runners around me and let my feelings dictate my pace. As I crossed the halfway point of 13.1 miles, I began suffering intense cramps. At that point I realized my emotion-driven pace during the first half of the race was a huge mistake and I would pay a long and painful price over the remaining 13.1 miles. During the second half of the race, literally thousands of runners, whom I had left far behind in the first few miles of the marathon, passed me with relative ease as I struggled in pain. I was unable to finish the race due to a stress fracture in my foot caused by my early aggressive pace. The fundamental mistake: ignoring my strategic long-term pace.

Much like the excitement when the starter's gun fires at the beginning of a marathon, the constant parade of "get rich quick" investment schemes appeals to our emotions, tempting us to ignore our vitally important long-term plans. In the late 1990s, many investors got caught up in the euphoria of technology stocks and other speculative investments that were rocketing ahead of diversified portfolios such as those engineered by TMG. Sadly, just as I collapsed and was unable to finish that marathon, many investors will never recover from the losses they incurred. Like me, their decisions were driven by emotions rather than a disciplined long-term game plan.

The bear market in 2001 - 2003 should have served as a painful reminder for everyone that markets go down periodically. Amazingly, many publications are again engaged in the same sort of speculation and market timing that previously devastated the hard-earned savings of so many people. For example, financial magazines regularly tempt readers with sensational headlines like: *The Top Ten Stocks of the Future* or *Five Mutual Funds You Must Own Now!* (April 04)

While no one can predict the future, there is no question that the up and down cycle of the markets will always be a part of investing. In fact, with the advent of 24-hour trading and nearly instant global communications, market volatility has noticeably increased over the past decade. As a result, an important key to the success of any long-term investment strategy is a superior investment policy coupled with the patience and discipline to stay the course. Investors who lack an investment policy often react to short-term events or market trends based on emotion. Strong investment policies allow investors to make disciplined decisions based on carefully researched investment principles and procedures that focus on long-term success.

The late Malcom Forbes was well known for his comment: "With all thy getting, get understanding." Investors understand the concept of buying low and selling high. But the emotional side in all of us tempts some investors to be more aggressive during bull markets and more conservative during bear markets. What does that actually represent?

Being more aggressive during a bull market means shifting dollars into equities while they are up (buying high). Responding with a more conservative portfolio during a bear market results in shifting dollars out of equities while they are down (selling low).

Procedural investing is quite different. The investment policy includes target weights for the asset classes in your portfolio. These targets are maintained with a rebalancing strategy - a highly disciplined form of buying low and selling high. During the most recent bear market, instead of selling equities while they were down, we rebalanced portfolios, selling fixed-income investments while they were up and purchasing equities while they were relatively "cheap." This discipline is a critical aspect of any successful long-term investment plan. (July 2003)

Just like clockwork, during down cycles in the market, all sorts of hucksters come out seeking to take advantage of investors' fears and frustrations. Some of you may have received phone calls from such people. They all have a "sure thing" that is supposedly the answer to all of your worries. The trend is sad but predictable. These schemes never go away because they take advantage of something that never goes away - human emotion. The same "no lose propositions" arise during up cycles as well. The only difference is the con artist is preying on a different investor emotion - greed rather than fear. (April 03)