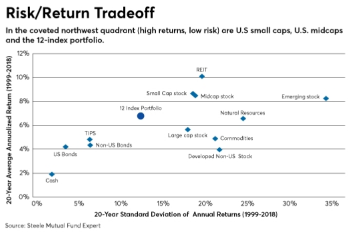
Good investing can be boring, yet effective! Specifically, investors with a long investing timeline should build a diversified, low-cost portfolio with an appropriate asset allocation and stick with it. Rebalance regularly to sell high and buy low. Don’t try to time the markets by getting in and out. Yes, this is boring, particularly with the volatility we are enduring, but it’s what it takes to generate solid returns over the long haul. Patience and time are powerful warriors and our friends.

Take a look at the average risk and returns for various asset styles over the last 20 years, which includes the 2008-09 financial crisis and 2018. The best performers, with higher returns and lower risk, are in the upper left hand corner:



Bonds have relatively low risk and have produced decent returns over the period, particularly the first 15 years. Small cap and mid cap stocks have outpaced large cap stocks (e.g. Dow Jones and S&P 500) over time, with better returns and similar volatility (risk). Non-US stocks have trailed US stocks. Emerging markets stocks have produced very good returns, but with larger volatility swings. REITs have produced a 10% annual return with a risk factor about equal to U.S. stocks. The diversified composite “12 Index Portfolio” has produced a nice return of 6.8% annually (better than large cap stocks with 5.6%) with about 2/3 the risk of stocks. Please note that during this 20 year period, the inflation rate was 3.2% per year. So, the 12 Index Portfolio produced an annual “real return” of 3.6% over the last 20 years.

Investors get in trouble when they lose faith in the markets and their allocation, react to the current market pain and go all cash or move to the “hot” asset classes for better returns. That approach generally ends badly for investors as the markets will correct themselves over time (as we have seen December 2018 losses recovered in January 2019) and hot asset classes go “cold” as the pendulum swings to the next “hot” asset style right after they jump in.

The 12 Index portfolio in this chart is composed of all the asset styles shown, equally weighted. Overall, this allocation is 50% equities, 33% fixed income and cash, and 17% alternatives; what we would term a “balanced asset allocation,’ appropriate for a “balanced risk profile.”

This balanced allocation will never be the top performer in any year. And, it won’t be the worst. It is designed to deliver middle-of-the-road, steady returns. Patience and time produce the results.

Investors need to also understand that time is their friend. “Time in the market beats timing the market.” Here’s another chart showing the growth of $1 since 1990, all invested in the S&P 500:

The black line represents an investor who stayed in the market every day and turned her $1 into $14. The red line represents the investor who missed the 25 best days (roughly one a year) and turned her $1 into $4. The gray line represents the return an investor could have received by simply investing in five-year treasury notes, turning $1 into $4.

Getting out of the market is easy; getting back in at the right time is very difficult. In the last couple of months, for example, the equity markets (using the MSCI AC World Index) are about level from December 1, 2018 until last Friday, February 8th. However, if an investor got cold feet and got out in mid-December and waited to get back in until mid-January, they would have lost 3.5% on their equity returns. Timing the market is not a good idea- unless you own a crystal ball, can implement perfect end of day execution on buys and sells, have no transaction costs, and don’t mind paying taxes on realized gains.

Patience and Time are two powerful warriors-they are your friends. Let them do the heavy lifting. Invest for the long-term. Yes, slow and steady wins the race. It may not make for great cocktail conversation, but boring investing can be very effective.