knowledgeable thoughtful ethical experienced interac

summaries

SIGMA INVESTMENT COUNSELORS

the official newsletter of sigma investment counselors May 2022

THE 8 BIGGEST MYTHS IN INVESTMENT

A short while ago, the CFA Society of Detroit sponsored a webinar titled "The 8 Biggest Myths About Investing". The presenter was Ben Carlson, CFA, Director of Institutional Asset Management, Ritholtz Wealth Management. I found the presentation to be timely and worth passing along.

Myth #1: You have to time the market to be successful

To successfully time the market, an investor needs to know when to get out of the market and when to get back in. If you get out of the market too soon and the market continues to rise, or if you get back into the market too late, after the recovery is well established, the opportunity loss can be substantial. Through personal experience as well as empirical evidence, very few investors can successfully time the market on a recurring basis. So, not only do you not need to time the market to be successful but we believe it is nearly impossible to do so.

Myth #2: You should wait until the dust settles to invest your money

In 2022, investors may be sitting on the sideline until the Russian invasion of Ukraine is resolved. Or, one may wish to wait until the Federal Reserve stops raising interest rates. The uncertainty over mid-term elections is yet another possible excuse for not investing in the market. The problem with this approach is that when one uncertainty is resolved, another one will appear. Think of the carnival game, "Whack a Mole".

Equally noteworthy, the market tends to be forward looking. Some would say that the market is looking six to nine months in advance. So, in the unlikely event that we do experience a moment in time where there is a lull in market uncertainty and the economic outlook appears bright, there is a very high probability that the market had already appreciated in price. So, waiting for the dust to settle is not a successful strategy over the long term.

Myth #3: Just wait for things to return to "normal"

What is normal? For some, normal is an idyllic memory of how life was so much simpler in our youth. In my youth, I wasn't caught up in world wars, economic cycles, world conflicts, rising taxes, and the like. These issues existed but they did not concern me. They do now. And yet, I wonder if our current generation of millennials may one day look back at this time as their "normal"? Successful investors need to not let their emotions get in the way of executing a sound investment strategy.

Myth #4: Stocks do poorly when inflation is high

A moderate amount of inflation provides companies pricing power which can lead to margin expansion. High inflation may suppress earnings growth for a limited period of time but history has proven that stocks can still post positive returns in such periods.

Myth #5: The stock market cares about geopolitics

Geopolitics can influence stock market behavior in the short run but over a market cycle, stocks are more interested in the strength of the economy. A case in point is what happened following the 9/11 terrorist attacks. After four days of closure, the S&P 500 Index initially plunged 11%. Nearly one month later, the index had recouped this loss.

Myth #6: The stock market is like a casino

The market is only a casino if an investor treats it as one. Clearly, there are many investors that get wrapped up in highly speculative investments and investment strategies, wagering large sums of money in the hopes of making a quick profit. On the other hand, if an investor has a long-term time horizon, maintains a balanced asset allocation, and adheres to a high quality and diversified portfolio strategy, the market is anything but a casino.

Myth #7: Risk is quantifiable

Many investors falsely believe that risk is a measure of volatility. Volatility is not risk. Risk is relative and it means different things to different people. The goal is to understand that no one can predict the future. The goal is to set realistic investment goals and invest in a responsible manner to increase one's probability of meeting these goals

Myth #8: Complex problems require complex solutions

Yes, investors are often faced with complex problems. Yet, solutions need not be complex. I believe one of Sigma's strengths is that we listen to our clients' needs. We map out realistic goals and expectations. We embrace time-tested asset allocation strategies and we build high quality and well diversified portfolios to achieve these objectives.

Christopher J. Kress, CFA

186 E. Main Street • Suite 200 • Northville, MI 48167 • tel (248) 223-0122 • fax (248) 223-0144 • www.sigmainvestments.com