3 Steps to INVESTMENT SUCCESS:

FRAME A VISION, CREATE A PLAN, EXERCISE PATIENCE

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Investment markets have historically provided lucrative returns over longer periods of time. Individuals who have invested at regular intervals and held for the long term have enhanced their wealth significantly. Take the recent case of a Vermont janitor who amassed $8 million through frugal living and smart investing. His safe deposit box was jammed with stock certificates of dividend-producing companies he knew and understood. The dividends were reinvested and over time his portfolio grew substantially, enabling him to gift $6 million to local charities.*

Unfortunately, many of us attempt to time the ups and downs of the market with disappointing results. Sensationalized news headlines, emotions and erratic markets have all stymied well-thought-out financial strategies.

Investment strategists continually claim you can time the market, but history has proven otherwise. Thirty years ago there were over 300 market timing newsletters. Fifteen years later 290 of those were out of business.** So much for "crystal balls." Far more market corrections were predicted than actually happened, causing many investors to capitulate when they should have stayed the course.

"There will always be someone predicting disaster and someone predicting great fortune. At one time or another, each will be closer to correct than the other. But, it won't matter to you if you understand this and have invested responsibly. You have a long-term plan; stick with it."

-Peter Lynch

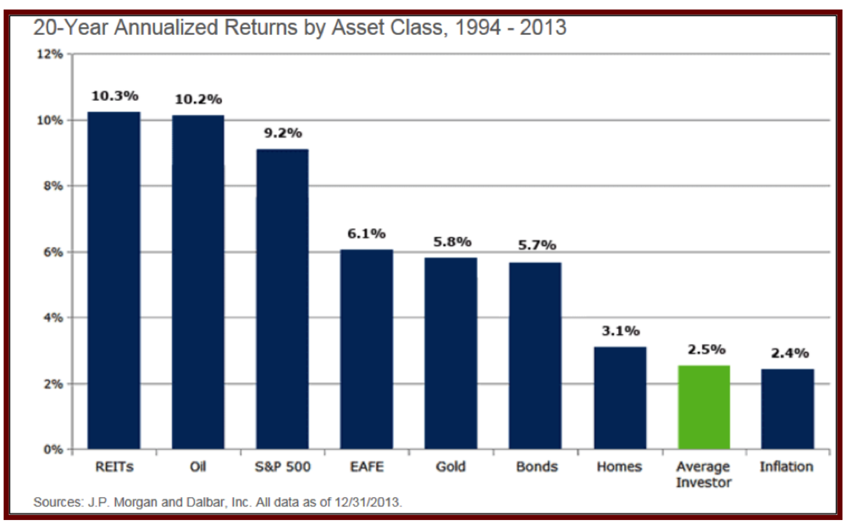
Patience and persistence can really pay off. Many investors have great success with their 401(k) plans. They live a bit more frugally and consistently add to their retirement plan from each paycheck. Then they patiently let their investments accumulate and compound.

What most people don't realize is that periods of substantial stock market gains occur just after some of the worst short-term stock market losses. Those individuals who stayed fully invested achieved a 9.9 percent return from the broad US equity markets over a twenty-year period ending 2014. However, if you missed the twenty best days, your returns would have been only 3.6 percent.***

Emotional investors tend to make poor market timing decisions. As stock prices move dramatically in either direction, emotions run high. Individuals often sell when the markets are down, turning paper losses into real losses. At this point they face a new dilemma – when to buy back in.

On the other hand, when stock prices are high and climbing higher, emotions will draw people into the market at the most inopportune time as prices are peaking. Market timing requires multiple decisions to be made correctly, which is no small task. This is the classic tug of war that investors often face between fear and greed.

The chart below illustrates the shockingly low returns that the average individual investor has experienced over time. Observing the returns of eight different asset classes over a twenty year period, the average investor just barely beat inflation. This demonstrates the common cycle of emotions many investors experience…buying high, selling low, and, in periods of great uncertainty, just running away.



Sources: *www.boston.com: "After Life of Frugality, Vermont Janitor Bestows $6 Million to Local Hospital, Library" 2/12/2015
**Professors Graham & Harvey, Duke University Fuqua School of Business, 1996
***Ned Davis Research, February 2015

GETTING IT RIGHT THE FIRST TIME

Individuals need to define their investment objectives, set long-term financial goals, and be consistent and patient when implementing their financial strategy.

First, evaluate your risk profile. Take an accurate and honest look at your time horizon, aversion to risk, desired standard of living, sources of income and plans for heirs. These all factor into developing a proper financial plan that will serve you well over time.

Regardless of those factors, inflation is a risk for everyone. Although monthly financial statements won't reflect it, failing to keep pace with inflation is costly. If inflation was just 2.5 percent per year, your purchasing power would be reduced by 22 percent after ten years. Every prudent investor should take steps to at least maintain their purchasing power.

Fixed income (or bond) markets help keep us ahead of inflation. They also provide a dependable source of income. High quality stocks, particularly those that pay dividends, can be a great vehicle for portfolio growth. A proper balance of income from bonds and growth from stocks can help investors reduce risk, survive through market downturns, and reach their long-term financial goals.

Second, build wealth with a consistent investment approach. A properly allocated portfolio that meets your investment objectives can help you achieve your long-term financial goals. This approach can be enhanced by contributing to your investment portfolio on a regular basis over long periods of time, perhaps ten to twenty years. Think you don't have that much time? The average person in the US is living 19 years beyond age 65.

Consistent contributions ensure that you will be buying wherever prices happen to be throughout various market cycles. Investors needn't worry about predicting "the best days" or "the worst days." This practice of dollar cost averaging in stocks or bonds can help maximize returns.

Those who start investing early will have outsized benefits in retirement. For example, a 25 year old earning $40,000 per year, who contributes 15 percent of their pretax earnings to a 401(k) each year, takes out no loans or withdrawals, receives minimal annual wage increases and earns 5 percent on their investments could retire at age 67 with a $1 million portfolio.

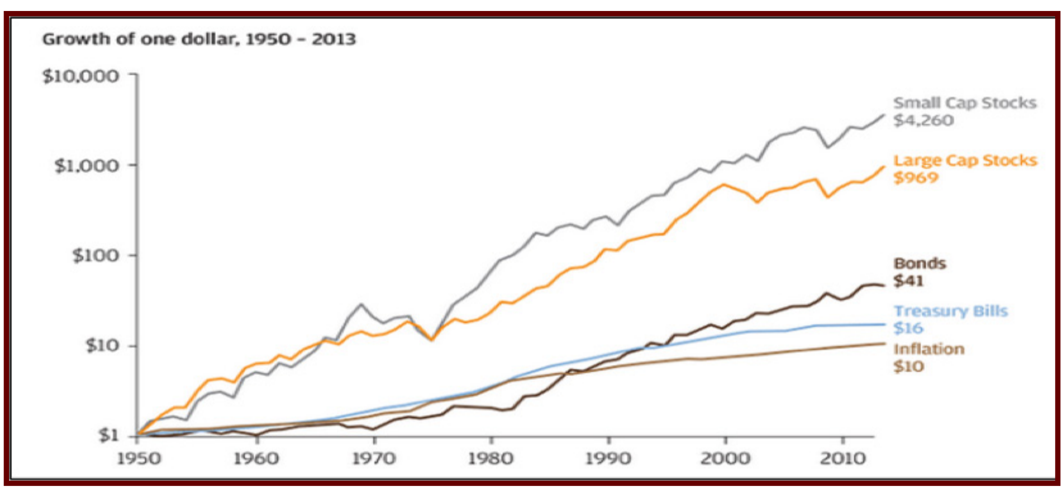
Third, utilize professional investment managers who have experienced a variety of market cycles and understand the fundamentals of the stock and bond markets. You certainly wouldn't perform surgery on yourself, so why would you manage a portfolio if it's not your area of expertise?

A professional financial advisor will help you chose a financial strategy that fits your individualized investment objectives and goals. Allow these investment managers to utilize their expertise and experience to help manage your portfolio during various economic conditions and investment market cycles.

LET THE MARKETS WORK FOR YOU

Long term investing is often easier said than done. We discussed how inflation erodes the purchasing power of your assets over time, and it's not enough to simply let your savings sit in cash. What cost $1 in 1950 today costs $10 due to inflation. The chart below illustrates the power of stocks and bonds in outpacing inflation. We can clearly see that T-Bills and bonds keep us ahead of inflation, but stocks truly build wealth over decades.

> "Everybody talks about cash being king, but cash is going to become worth less over time, while good businesses are going to become worth more over time."
>
> -Warren Buffett



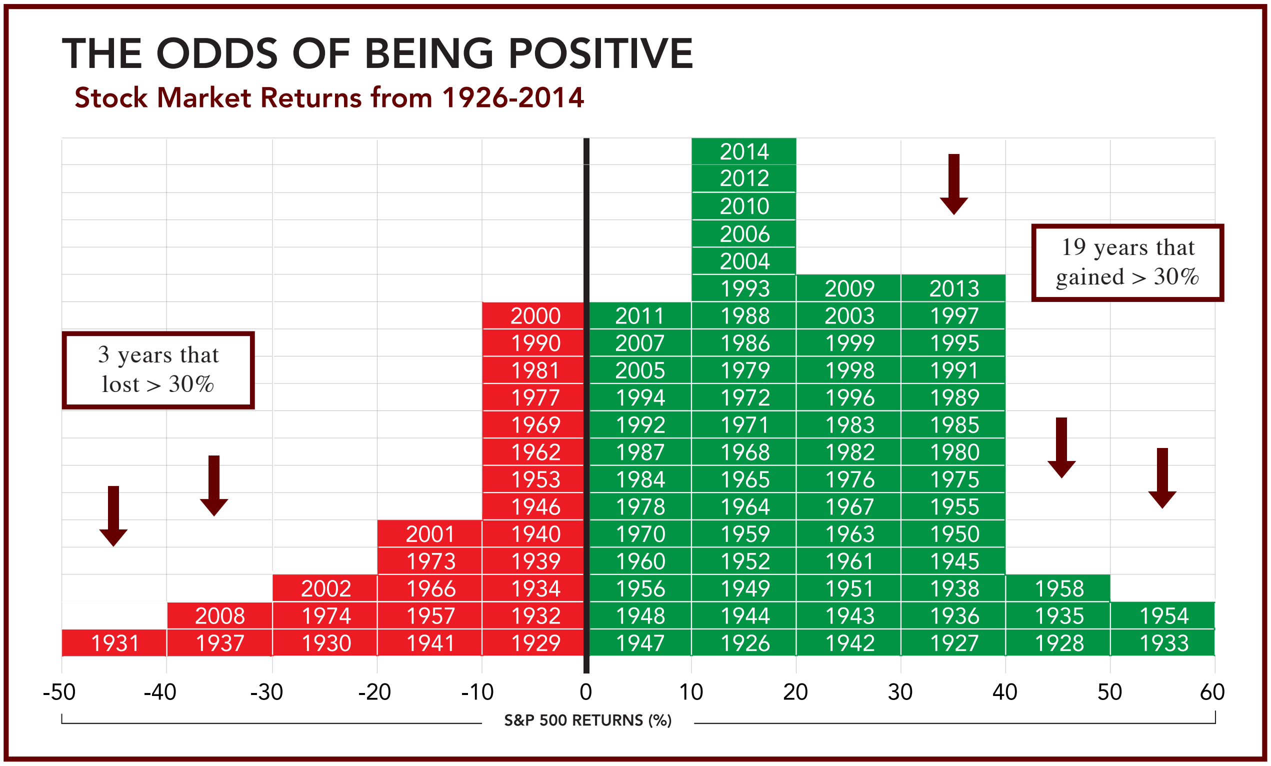
Source: Morningstar

The benefits of staying in the investment markets over longer periods are powerful. Over the last 90 years in the US there have been:

- **9 Bull Markets that have lasted an average of 9 years, and returned an average gain of 460 percent**
- **8 Bear Markets that have lasted 3 months to 3 years, with an average loss of 41 percent***

Since 1928, the S&P 500 has averaged a 9.6 percent annualized total return. Staying in the stock market and letting your returns compound over this time meant your money doubled every 7.5 years on average.

Many investors continue to think a market correction is imminent and are hesitant to invest. The attractiveness of longer term annualized returns in the stock market do come with volatility. However, the odds of being positive are extremely favorable. Even when returns have been higher than the long-term average, a recent study found that returns in the following five-year periods were still strong, up 9 percent.



The chart above illustrates that there have been 2.6 positive years for each year of a stock market decline. If given those odds of winning at the blackjack table, most people would probably start playing immediately. Unfortunately, most individuals don't apply this same psychology to the investment markets. Too often they are focused on the 3 years the markets have been down over 30 percent, and lose sight of the 19 years the markets have been up over 30 percent.

> “Focus on time in the market, not timing the market.”

CONCLUSION

Forecasting the economy and financial markets is difficult, if not impossible. “Crystal balls” that predict returns seem to work, until they don't. At that point, the investor, not the fortune teller, is left holding the bag.

Markets do move in cycles, but history has proven that consistent investing, longer term time horizons, and utilizing professional money managers can result in reduced risk and enhanced returns. The key to financial success is finding your own distinct portfolio balance. This balance will help keep you participating in the markets over the long haul through various economic and market cycles. Do yourself a favor, discuss your personal financial situation with an independent financial advisor and design an individualized portfolio strategy – one that allows you to enjoy your days and sleep well at night – then let it grow.

*Source: Morningstar data from 1926 to 10.31.2014