PLEDGE TO PLAN, PLEDGE TO COMMIT

Why long-term investing can help you become an exceptional investor

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If you expect to be in retirement for 30 or 40 years, investing for the long-term fits but to be successful, you will need to separate yourself from the "average" investor and become the "exceptional" investor. If a vision of a financially secure retirement is your dream, you have a duty to yourself and your loved ones to accomplish that dream. Consider this quote from Thomas Edison: "Vision without execution is hallucination." How will you execute your vision? Do you have a plan that you are committed to? The most important step towards realizing your goals and dreams will be for you to make a solid, long-term commitment to your investment plan.

Recent market turmoil has provided a useful experience for any type of investor. You received your investment statement for the end of September that showed a steep drop in the value of your account. How did you feel? Did you feel disappointed, discouraged, and fearful of future returns? Did it make you consider selling your investments to save them from further erosion? If you can relate, read on.

On a recent Golf Channel *Morning Drive* program, Charlie Rymer, the show's commentator and past PGA Tour player, was relating a discussion with Lou Holtz, renowned Notre Dame Coach. Lou and Charlie were talking after a show in which Charlie had interviewed Lou. One comment Lou had made about coaching stayed with Charlie. As recounted, Lou's routine before each season was to ask each prospective player to pledge he was 100% committed to the season, that he would give it his all for that entire year. Once the season started, there would be no choice at any time to quit.

Charlie then revealed his regret at not having made the same pledge during his PGA Tour career. When Charlie was on tour and encountered a down period, he would contemplate quitting. The tour has its challenges and traveling away from home and family is not always fun, but you are at a disadvantage if you do not make a firm commitment. Many golfers experience difficulties in their individual golf games but the successful ones remain steadfast in their commitment to their game and the goals they wanted to achieve. Charlie mused that if he had had the discipline, and been fully committed to his PGA career, it may have turned out much differently. He would have been able to maintain focus through down times, allowing him to achieve his goals and enjoy a more successful career.

Unless commitment is made,
there are only promises and hopes, but no plans."

Peter F. Drucker

Many major champions from golf (and other sports) begin their careers with a goal in mind. They focus on achieving that goal without the distraction of wondering if they should quit or not. Many of the young athletes today fit that same pattern: Jordan Spieth, Rory McIlroy, and Tiger Woods all had childhood drives toward a particular goal or record. Reaching the level of success that they have achieved was not by accident. They each had a plan and committed to reach that goal.

During 11 seasons at Notre Dame, Holtz's teams won 100 of 134 games. According to Wikipedia, "Holtz is the only college football coach to lead six different programs to bowl games and the only coach to guide four different programs to the final top 20 rankings."[1] Lou Holtz did many things to drive his teams to success. It all started with a commitment that lasted the entire season.

Now consider the world's most successful investors: Warren Buffet, John Templeton, Peter Lynch or money managers like Bill Miller. Their careers are marked by looking at a long timeframe. They ignored or took advantage of market sell offs. Their vision was to succeed during their lifetime by selecting investment themes and investments that would be important to the world in time. They recognized there would be times in which the results would be dismal. During those times, they took comfort in the understanding that time would eventually work for their investments. They had a deep belief that Capitalism grows. Their earnings would grow, and eventually, growing earnings would correlate into higher investment values.

Sadly, the average investor's investment experience over the last 20 years compared to the investments available has been dismal. While the stock market has averaged 9.9% and the bond market 8.7%, the average investor has averaged 2.5%.[2] Why is this? The data suggests that the average investor approaches investing by looking backwards by buying into investments that have had a couple of years of success and selling the investments that resulted in poor results. This "rear view mirror" approach sells low and buys high. Short-term vision and bailing when the markets fall are the trademarks of the average investor.

When you compare the "money master" investor verses the average investor, the core difference between the two is the money master's long-term commitment to their vision. You may be approaching retirement and realize your investment needs will have to span decades because you expect to live in retirement for longer than you worked. This has become more common than in previous generations. You worked hard for your investments, make those funds work hard for you. You will need a vision based on a solid, achievable long-term plan that you can put your faith in. Even though the markets will provide you with times of investment stress, your own emotional stress should be minimized. Most importantly, dedication to stay the course will help you become an exceptional investor.

You may need some help to put your plan together. Fortunately, you do not have to have the expertise, time, or interest to put a plan in place that you can commit to because there is a resource that is readily available to lean on: a "fee only" Registered Investment Advisory (RIA) firm.

An RIA has a fiduciary role requiring the advisor to adhere to the client's best interests first and foremost. Whether you use an RIA or put your own plan together, it is important to follow a plan that you can trust in so your vision can become a reality. Following are some crucial steps to consider for your plan.

[1] Source: Wikipedia; [2] Source: Morningstar Direct, Dalbar Inc., J.P. Morgan Asset Management

Review your needs. Calculate when and how much you will need from your investments. Many investors make the mistake of thinking that when they retire, their investment decisions are finished. They believe they have "made it," or crossed the finish line. If you look at what you will need through your life span, you can see the work your investments will need to do. How much income will you need from your investments? How will inflation potentially affect your spending? If you don't want to outlive your money, how should you plan for your potential longevity? Do you want to leave a legacy? Will there be unexpected problems – medical or long-term care needs – lurking in the shadows? Answer these questions and use the results to determine how your assets should be invested.

Assess the level of risk you can commit to. You may need to look into your past to evaluate how comfortable you have been when risk opportunities were present. How have you acted when making life choices? What risks have you embraced, and which ones have you avoided? This will give you some idea about the level of pain you can withstand before 'crying uncle.' You want to be able to stay loyal to your commitment through times of market stress. The more aggressive the investor, the more pain they should be able to withstand. The more conservative, the least amount of price volatility will be tolerated. Recognize where you are and adhere to this in your plan.

Analyze your current investments. In this analysis, you will want to evaluate if your current investments match your risk tolerance. Evaluate what the actual investments are and how diversified they are. If you are in mutual funds, check to see the amount of overlap between funds. You may be surprised to find that although you thought you were very diversified, the funds you have invested in have many of the same positions, thereby concentrating you into fewer holdings. Look at how your portfolio overall has behaved during good and bad times. Measure what in your portfolio will generate income. How much do you have that might be considered short-term investments and long-term? Look at the credit quality and duration of your bonds. See how diversified you are in your stock portfolio. Determine your stock holdings mix between large, medium, and small as well as foreign and domestic.

Diversify your investments to match your commitment and timing. Institutions use diversity to improve potential for performance and lower risk. This may be one of the most misunderstood areas of investing by individuals. True diversity would combine assets to minimize volatility of the total. Investing into thousands of investments mitigates the potential of one unexpected failure. True diversity provides you with the most probability of reaching your goals. Don't shortchange this process. It is important to the next step and ultimately betters your chances of achieving your goal and vision.

Reach a level of comfort from the historical performance of your portfolio. If you cannot realize this comfort, go back to step two. If the target and range of returns are good for you, this will give you an expectation of what could happen in the future. Pay particular attention to the length and depth of the poor performance periods in the past. You will be much happier if you know what to expect in the worst of times, and you will be prepared for a recurrence of market failures. If your expectations and portfolio performance do not match, it could cause the failure of your plan. Expect poor performance from the beginning but embrace it with the knowledge that in the end, you will meet your goal. After all, you will be pledging to live with this portfolio and its results through thick and thin. Do this for your own sanity and bolster your ability to commit to your plan. The design of your plan should allow you to sleep at night no matter what is taking place in the markets.

Make the pledge to your investment plan and commit to see it through. Realize that commitment to your plan does not mean that you can never deviate from or moderate the plan. The unexpected will always occur. That is life. Plans can change, but don't make your changes because the investment portfolio disappointed you. The changes to your plan would be because of unexpected life changes, such as death, illness, marriage, inheritance, disability, or you win the lottery. These are typical reasons to change your plan. When a change such as these happens, go back and validate each of these steps again.

In conclusion, if you follow these steps you can let your plan take you on a path to your future in a determined, disciplined and confident manner. You will not falter during disappointment and ultimately, you will have adopted the best possibility of achieving solid results for your financial future.

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