On Course Financial Planning

Facing the Future with Optimism and Courage

Vectors

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In the News

In times like these, the best thing that an advisor can do is remind clients that this is why we diversify, why we don't chase the latest hot stocks or market sectors and why we own investment grade bonds to moderate portfolio volatility. Risk and expected return are directly correlated, so if you want the long-term return of stocks, you have to withstand short-term pain. I've been a financial advisor for 20 years. Each new crisis has been the result of unique circumstances, leading to claims that "This time it's different!". But in the end, it's always the same – "This too shall pass".

The S&P 500 fell 10.5% on Thursday-Friday in the first week of April, the fifth largest 2-day decline in the past 75 years and its worst week in over five years. In the current environment, any morsel of good news on trade will be a positive surprise for markets, which was evident on April 9th when Trump's 90-day tariff pause led to a 9.5% rise in the S&P 500 - the largest one day increase in 17 years, and only the sixth daily gain of 9% or more since 1928 according to the *Wall Street Journal*. It ended the week with a 5.7% gain - its best weekly performance in the past 16 months. The beneficiaries of this unexpected rise in stocks were those who stayed invested despite the volatility and scary headlines. Easy to say, hard to do, but worth the effort.

The events of the past two weeks are noteworthy for two reasons. First, they provide more evidence that nobody knows anything. Recent events were in no forecaster's crystal ball as we entered 2025. We continue to think that those who pay attention to the economy 24/7 must have some idea about what's in store for the markets. Hopefully, by now, you understand the folly of such thoughts. Second, it is the latest example of the fact that some of the best days for the stock market occur in close proximity to some of the worst days - during times of extreme volatility. According to JP Morgan's 2025 Retirement Guide, for the past 20 years through 2024, seven of the ten best days in the S&P 500 occurred within two weeks of the ten worst days, and six of the seven best days occurred **after** one of the worst days. The report notes – *"Taking "control" by selling out of the market after the worst days is likely to result in missing the best days that follow. Investing for the long term in a well-diversified portfolio can result in a better retirement outcome."*

Investors who get caught up in the negative news stories and panic sell after stocks have declined usually miss the rebound, making the loss permanent, leading to market trailing returns over time. Legendary mutual fund manager Peter Lynch once said, *"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."*

Good portfolio design begins with the assumption that the future is unknowable. This is why stocks are volatile and why equity investors expect to receive a "risk premium" – the historically greater return of stocks over fixed income investments. It is foolish to change your portfolio based on what you think might happen because neither you, nor anyone else, has any idea what will happen. So, instead of focusing on those things that we cannot control, the most reasonable thing to do is to do our best with those things that we can control.

Our default emotional response to uncertainty is to assume the worst – which will be bellowed by the relentlessly negative media - and react accordingly. This is why there are so few successful investors and why financial advisors have been sent into the world. The current unpleasantness provides no justification for abandoning your investment plan (assuming that you have one) because no one can time the market or gain an advantage by panic selling or panic buying. This is the undisputed lesson of market history. Those who pretend to know how and when this will play out will likely be wrong because they not only must accurately predict future events, but they must also accurately predict how the capital markets will react to those yet unknown events. No one can do this on an ongoing basis but, unfortunately, the financial media will anoint anyone who gets it right once in a row. And there will never be apologies from those who were wrong.

Successful investing requires a long-term focus. The longer you stay invested, the higher the probability of earning a positive return. The stock market is unpredictable day to day—with about a 50/50 chance of gains or losses—but over longer periods, the odds shift dramatically in the investor's favor. Since 1928, the S&P 500 has produced a positive return in 89% of 5-year rolling periods and 94% of 10-year rolling periods. Stocks have rewarded patient, optimistic long-term investors who were able to withstand the inevitable, temporary losses along the way.

There will always be financial advisors and money managers who insist that they know how to be invested in the stock market when it's rising and, on the sidelines, when it is declining. These people fall into two categories – delusional and dishonest. So, the next time a financial advisor or broker tries to sucker you into a market timing scheme (often euphemistically called tactical asset allocation), just say, "Before I sign on, I'd like to see your tax returns for the past five years."

Typically, stocks have functioned as "leading indicators" in the economy. This means that prices begin to recover when the news is still disheartening. By the time the headlines turn positive, the market will have already made a big rebound that long-term investors count on and that market timers are likely to miss. This is why "waiting for the dust to settle" is not likely to be a profitable investing strategy. When looking at past stock market turning points, we mistakenly assume that everyone should have been able to notice them at the time. But that isn't how real life works. The date of the bottom of every bear market is enshrouded in fog. Turning points seem obvious in hindsight -- but in real time they are impossible to spot. Was April 9th the turning point this time? Only time will tell.

Remember, your financial plan is the roadmap to your financial goals. In its development you make important decisions ahead of time, so that you will be able to ignore your unreliable emotions during volatile times. Remaining invested during turbulent times is not easy, but it has been—and will continue to be, in my view, the single most reliable strategy for building wealth over time. To paraphrase Charlie Munger, Warren Buffett's business partner, the most important thing to remember about compound growth is – don't interrupt it unnecessarily.

Investing Lessons From Baseball

On a happier note, a new baseball season has begun. Believe it or not, you can become a better investor by taking a few cues from our national pastime.

They keep score in baseball. Baseball provides something that investors rarely get from people who dispense investment advice -- total disclosure. When a batter or pitcher enters the game, up to date performance stats appear on the scoreboard. This never happens when talking heads show up on TV to utter their latest prognostications or recommendations. Why not? Because few have a prediction "batting average" greater than coin flipping.

Baseball fans understand averages and streaks. Baseball players experience hot and cold streaks in which their performance fluctuates above and below their proven skill level. By the season's end the hot and cold streaks cancel each other out and reversion to the mean will prevail. Too many investment decisions are based on a recent hot streak in a fund or asset class. The subsequent reversion to the mean is as predictable as it is demoralizing.

Baseball fans root for the team. It doesn't matter who the players are. You must do the opposite if you own actively managed funds in your portfolio. Returns are attributable to a particular manager and if there is a manager change, there's a new team on the field. Unfortunately, fund companies continue to publish the past performance of successful managers long after their tenure at the fund has ended. Calling this consumer fraud might be a bit harsh, or maybe not.

Baseball has a long 162 game season. Some days, a good team will be beaten by a less talented squad, but baseball fans understand that short term results rarely indicate a permanent trend. That's why the World Series is a best out of seven test. Investors who spend too much time scouring the financial media can become obsessed by the market's daily ups and downs. Most days, nothing happens that will make it into history books. Take the long-term view.

Baseball games last 9 innings. Even when the score is lopsided, the game continues for nine innings. Anything might happen and as Yogi Berra said, "*It ain't over till it's over*". As fans, we can give up and go home early but the teams keep playing. Unfortunately, many investors act like fans and rush for the exit if an investment's short-term performance is disappointing. Often the smartest move is to take Yogi's advice and stay the course.

Baseball fans watch the out-of-town scoreboard. They keep an eye on how their team's rivals are doing. Some investors forget that "out-of-town" foreign stocks are an important part of any investment portfolio.

Baseball fans are optimists. "Wait 'till next year" is every disappointed fan's refrain. They believe that today's best players have a chance to break any record, even hitting or pitching standards that have held up for decades. Investors should develop their own version of this spirit of long-term optimism. Without it, it's hard to be a successful investor.

Baseball fans plan for rain. They bring umbrellas if the forecast calls for inclement weather. No fun getting soaked during a rain delay. In an investment world where about two years in five brings disappointing stock market results, too few investors have a diversified portfolio designed to protect them from Wall Street's version of stormy weather.

Baseball has umpires. Nobody would trust a player's opinion about a close call. That's why there are four umpires who are the final arbiters for every close play and who themselves are subject to video reviews. Financial advisors are subject to a myriad of rules and practice guidelines established by state and federal regulators for the protection of investors. Unfortunately, there are no financial umpires to judge your advisor's integrity and no video reviews of what he or she actually told you. The advisor/client relationship is one of trust, an honor system that too often doesn't work any better than it would in baseball.

Baseball fans know that victory is not permanent. In baseball it is rare for a team to win consecutive World Series titles. Likewise, outperforming funds are unlikely to remain top performers. In investing, past performance is no guarantee of future results. Just like in baseball, each new year brings new challenges and no guarantees for last year's winner.

It's the same game my father taught me. Except for the misguided excursion into artificial turf and polyester uniforms in the 70's and 80's, baseball hasn't changed very much. Transport a fan from 1950 into a modern baseball park and no explanations would be necessary concerning rules or game strategy (except for the silly phantom runner who starts out on second base in extra innings). If only the same thing could be said about investing. Rules about retirement accounts, taxes and investment options are constantly changing and becoming more complex. Therefore, investors must continue to acquire (or hire) the expertise to stay up to date in order to properly manage their financial assets.

Baseball teaches us to focus on inputs, not outcomes. None of us has 20/20 foresight and we shouldn't beat ourselves up when things don't turn out the way we'd hoped. By studying the past, we can gain an understanding of what is probable but that doesn't guarantee the outcome. We are left with the following paradox -- I can analyze a situation, make the correct decision and be disappointed with the outcome. For example, consider this baseball parable -

Your Hometown Nine is in the midst of a tight pennant race. Unfortunately, Old Joe, the best hitter on the team, a lifetime .300 hitter, has a minor injury and is available for pinch-hitting only. It's the bottom of the ninth, there are runners on second and third with two outs and your team trails by a run. A single and your team will chalk up another victory. The weakest hitter in the lineup is coming up to bat, so the manager tells Joe -- "Grab a bat, go up there and get a hit." Unfortunately, he pops out. Game over. Your team loses. Good decision? Yes. Good result? No.

Next game, the same thing happens. The manager once again chooses Joe. This time Joe strikes out. Not only that, but this happens seven games in a row! Sports radio is abuzz with talk of firing the manager. What kind of fool would stick with Joe seven games in a row? How could he be so dumb? Why didn't he see that Joe is in a slump? Forget about what Old Joe has done in the past, this time it's different. Joe says his injury has healed and he is feeling fine. Still sticking with Old Joe, the manager puts him in the lineup for tonight's game. Old Joe gets three hits and a walk. What do we make of all this and what does this have to do with the investment decision making process?

- Old Joe has done exactly what is to be expected. He has 3 hits in his last 10 at bats giving him a .300 batting average for the eight games.
- The unusual occurrence of 7 outs followed by 3 hits is simply a function of the randomness of averages. Mathematically, it's not surprising at all.
- Short-term results are random and unpredictable. They cannot be given precedence over long-term results unless something has occurred to invalidate long-term data.
- Disappointing results are often nothing more than random events and do not necessarily mean the decision-making process was faulty.

Investing has inherent risks. And no matter what anyone tells you, there are no guarantees. But keeping an appropriate percentage of your portfolio invested in stocks is the best way to accumulate enough financial assets to fund a 30-year retirement in which prices are likely to rise each year. Control what you can control, make investment decisions based on historical precedents, your goals, time horizon and risk tolerance, then give yourself some grace. Judge yourself by the quality of your decisions and not by the outcomes because there are innumerable factors outside your control that will impact investment returns. No one has 20/20 foresight, and 20/20 hindsight has never made anyone a nickel. Having a prudently designed, well thought out portfolio is the goal, not one that is constantly being changed in response to the latest headlines.