Strategic Investing.

Notable Quote

"Permanent loss in a well-diversified equity portfolio is always a human achievement, of which the market itself is incapable."
Nick Murray

The Secret Formula

We'd like to start 2016 by expressing an appreciation for our clients. Weathering the ups and downs of the market can be tough for even the most seasoned of investors — especially during a year like we experienced in 2015 — so we thank our clients for their business and commend them for staying the steady course that is financial planning.

Power of Five

As we reflect on 2015, the number five keeps coming up. This year marks five years that Simmons Asset Management has been in business and my fifteenth year in the investment industry. My first day as an advisor was on September 11, 2001 — not the best start I'll admit — but it was a lesson in what to expect in this business.

There have been some other tough years, including the 2001-02 recession, market crash in 2007-08, then the real estate bust, the roller coaster ride that was 2015 and now a negative start to 2016. Falling oil prices and rising interest rates continue to have everyone concerned, especially along the energy corridor. Stocks began to hit new highs by May 2015, but the growth was temporary. Worries over China sent U.S. indexes into a correction during the summer, and things began to stabilize toward the end of the year.

Despite all of this, a lot of growth has happened for my clients, as well as myself and the market over the years. While it is tempting to focus on all of the bad, we are better off than we were 15 years ago, and I can only imagine what the next 15 years will hold.

I had a client recently go back and look at the values of his accounts. He's done well over the years and as much as I wanted to take credit for his success, I couldn't. His portfolio's growth is a result of the patience that always pays off when it comes to investing. This client is a prime example of how staying consistent and steadfast despite difficult times will help you reach your goals.

The Secret Formula to Reaching Long-Term Goals

As we get back on track from the holidays, I find myself reflecting on conversations I've had with people regarding the market. It seems like year-end parties and get togethers are a great time to recount our returns and discuss and share ideas. They might seem harmless, but these discussions can actually be extremely dangerous.

The best advice I can give someone who feels compelled to react based on advice from other people is to ask themselves one question: How is this going to help me in 20 or 30 years? If you're a serious investor, then the latest hot stock or investing idea isn't the smartest way to go. Reaching your financial goals is always reliant on the portfolio allocation relative to time. It's not about buying a hot stock — it's about being consistent over time. By asking yourself this question, you can easily discount a great deal of what you hear.

So, the secret formula that will help you maximize your returns and reach your goals is always the correlation between the portfolio allocation and time. Once an investor realizes this and ultimately accepts it, they can relax and ignore everything else. Just like someone trying to be healthy, adopting an active and moderate lifestyle with a well-rounded diet and practicing this over time is what consistently works. Despite knowing that fad diets or extreme measures aren't sustainable, people find them hard to resist and often fail at them.

Having a goal-focused plan rather than a market-focused plan coupled with a diverse portfolio is the key. Some people might think investing is about focusing on the market, but that can be a recipe for disaster. With the way the market moves up and down, you'll drive yourself crazy trying to keep up. I often tell stressed clients that if they had spent more time with their families and less time worrying about the market, they would likely be happier and have more money to show for it.

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Patience Not Panic

In the end, the market really didn't perform much in 2015. After a lot of volatility, the year ended rather flat. Most economic forecasts show slow growth in 2016, and I liberally predict a period of average returns ranging somewhere between 8-12 percent. That is my guess, and I fully admit it could be wrong. I can say with more certainty that following the brilliant entrepreneurs of the world will be a better long-term predictor. Instead of trying to pinpoint or read too much in current economic data, which could be counterproductive to our returns, we should focus on the companies that create products and services that revolutionize the way we live. Having faith in these companies, as well as ourselves, will pay off.

Experienced investors know this is a great time to be optimistic. Now is the time to set up a foundation for the future and make sure you're in a position for growth when the market does start performing.

Johan Cruyff, a former professional soccer player and coach, recently stated in an interview:

"When you play a (90 minute) match, it is statistically proven that players actually have the ball 3 minutes on average … So, the most important thing is: what do you do during those 87 minutes when you do not have the ball. That is what determines whether you're a good player or not."

His point is that the work you do during the 87 minutes when you do not have the ball is imperative. It is the defense you play, the shape you maintain, the mental strength you possess and consistent support you provide your team. Investing is somewhat similar to this.

Most of the returns you make in your lifetime will be made over a very short amount of time. It's what you do during the other times that will determine your overall success. Many times, the market will move one way or another for the better part of a year and then all of a sudden it surges to all-time highs. As an investor, if you aren't in the game, you won't be able to participate in these returns. Sometimes you have to sit through excruciating times or stagnant growth to fully appreciate the good times when they eventually come. Investing at a steady rate and having a diverse portfolio will ensure you're in a position to reap the benefits.

As Johan Cruyff put it, make the most of those critical minutes of the game when all your hard work finally pays off.

The Next 15 Years

To bring this to a close, I want to again take a quick look at the past 15 eventful, chaotic and difficult years. Despite all the challenges, major market corrections and economic catastrophes, the S&P 500 index still managed to increase approximately 50 percent. If we go back throughout history and analyze centuries worth of data, the past 15 years comes close to being the worst of the worst, yet we still end that period with a positive return. Admittedly, 50 percent over a 15-year period is not brag worthy; it is merely less than a 3 percent annualized return, but the point is made that although there were challenges, there was also success in the end.

More to the point, I am enthusiastically looking forward to the next 15 years to come. We have endured a suppressed market environment for quite some time and undeniably the past handful of years have not produced a remarkable amount of growth. Suppressed markets never last forever and always give way to the fantastic returns that grow our portfolios. 2016 started off rather poorly, and that's OK because every day that goes by puts us one day closer to the next bull market. There is a bright future ahead and we must stay focused, remain on track and ready for the opportunity when it ultimately arrives.

Helping you become a better investor!

Mark Simmons
President