TWELVE INVESTMENT PRINCIPLES TO LIVE BY

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In 2008, the financial world was in a dark place. The markets were in the midst of the subprime crisis. The sell-off in equities was broad and brutal. At the depths of the decline, equity markets fell by over half. The news media blared that the worst was yet to come. Desperate to keep what they had left, many sold into the decline.

Today it is a different world. Stocks continue to make new highs and investor sentiment is positive. It is good to see the economy growing and investors amply rewarded. While the past crisis was serious, most who followed solid investment principles survived and flourished since that time. As Warren Buffett once said, *"Sound principles can get one though almost anything."*

While we are not predicting another crisis, we know that volatility is part of investing. History tells us that a 10% decline in the equity markets occurs about once a year. Again, sound principles can help get us through them. With this in mind, here's a list of 12 investment principles that may help in planning your market strategies in the future:

1. **There is no such thing as "short-term investing."** The phrase "short-term investing" is an oxymoron. Put bluntly, a short-term financial focus is speculation, not investing. Investing is a fundamental commitment of your capital to the pursuit of the greater goals in your life – a dignified and independent retirement, the education of your children or grandchildren, or a legacy for your heirs or your community, for example.

2. **Information is not knowledge.** Today we are blessed with easy access to information – through television, the internet, and other media, for example – which has the capacity to improve the world in many ways. While this allows widespread access to economic forecasts, analyst's opinions, and political commentary, the vast majority of this information can be irrelevant, conflicting, or biased.

Knowledge, unlike information, comes from sorting through data and applying it carefully to a specific situation. We know that achieving your specific goals requires more than just information. As we often say, "Financial decisions are best made with the television *off."*

3. **Optimism is key.** Investing can be challenging; there always seems to be unsettling events on the horizon. The past few years provide many examples; for instance, we have seen financials crises, natural disasters, and epidemics. Some think the world is suddenly a dark and threatening place. While it certainly can be, advances in medicine, technology, and other areas have actually resulted in the world being safer than it has ever been.

This doesn't mean we believe in blind faith. We are always vigilant to threats to our capital and always seek to protect against undue risk. It means we recognize the powerful upside to human ingenuity and innovation over time. As Winston Churchill said, "I am an optimist. It does not seem too much use being anything else."

4. **Asset allocation is a diversification strategy that helps manage risk.** It cannot offer a guarantee against market losses, but it offers you an investment risk management tool. Sector concentration – no matter how attractive the sector may appear, no matter how compelling the arguments – is still speculation.

5. **Return vs. risk.** If you don't see or understand the risk, keep looking; it's there. Once you find it and understand it, it may be acceptable. But until you identify the risks, they are unacceptable. We design portfolios in advance of risk, not in reaction to it.

6. **Most dollars flow into high-performing investments *after* the performance has occurred.** The single most-abused tactic is for investors to chase last year's performance. A disciplined investment plan and investment selection criteria are critical if you want to avoid making this mistake.

7. **Market indexes and benchmarks can tell a much-distorted story.** They don't really measure "the market." The performance of an unmanaged index is not indicative of the performance of any particular investment. The success or failure of your investment plan should be measured only by whether or not it is meeting your long-term goals over a full market cycle. It is possible to outperform an index and still run out of money. While we are aware of benchmarks, our primary goal is to get you all the way home.

8. **A well-balanced portfolio should be diversified among the major asset classes.** Cash. Fixed income. Large and small companies. Growth and value. Domestic and international. The only guarantee is that some of these areas will periodically disappoint you. But you never know which ones or when. Significant differences exist in risk among investment asset classes. Be aware that some investments have principal and yield that will fluctuate, some with extreme volatility. You should stick to your plan and remain invested across several asset classes.

9. **Years of high returns can be completely reversed by one bad year.** That's why you shouldn't use short-term criteria to judge long-term results; past

performance is not indicative of future results. That can lead you to unknowingly creating a very high-risk portfolio. Ultimately, consistency is more important than an occasional “home run.”

10. **The traditional rules of investing are still true.** While they can be adjusted periodically to fit some of the finer points of the current economic environment, you should never abandon the core principles of diversification, sound values, patience, following a sound plan, and maintaining a long-term perspective. Know the rules and know when you are breaking them. Keep in mind your long-term investment objectives and risk tolerance.

11. **Valuation still matters.** Stewardship of wealth requires a careful examination of value. Markets can be subject to fads and hyperbole. Time and time again, many rush into “the next big thing” only to be disappointed. If you begin to believe “it’s different this time,” you are wrong – it’s not. When this basic principle of investing is ignored, you will eventually pay the price.

12. **Market timing doesn’t work.** Moving into and out of markets based on any anticipated changes in price as opposed to fundamental changes in value is speculation, not investing. Peter Lynch, the former manager of The Fidelity Magellan® Fund, believes, “Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in corrections themselves.”

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