Control The Things You Can Control

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Investors can enjoy above-average performance over the long-term by focusing on the things they can control or predict, by being patient, and by keeping things simple.

Many investors stress themselves by investing in individual securities with the hope of matching or beating the return of the relevant indexes. Unfortunately, to do this requires that they be able to consistently predict the unpredictable!

It's easy to be a successful investor—but it's devilishly hard for the average individual to buy individual stocks and bonds and do better than a composite index or a portfolio of ETFs. With limited resources, if you can consistently earn a higher return than professional managers without taking more risk, you should consider changing careers and becoming a professional money manager.

If you spend a lot of time on your investment portfolio, you have to be honest and ask yourself whether you're spending time on the portfolio because it's an activity you enjoy, or because you seriously believe that you have so much skill in selecting securities that you can match or beat the appropriate index?

The list of factors over which investors have no control and cannot consistently predict includes:

- Whether the stock market as a whole goes up or down;
- Whether a particular stock goes up or down;
- Inflation and interest rates;
- Other people's actions (herd mentality);
- Economy and jobs reports;
- Government intervention;
- Black swan events—such as a government defaulting on its debt, war, collapse of a major corporation, rogue states getting a nuclear bomb, earthquakes, etc.

Yet, based on my years of experience in talking with investors, I believe 80% to 90% of the time they spend working on their investment portfolio is spent (I would say wasted) trying to predict the following five factors which can't be consistently predicted:

- The top or the bottom of the stock market;
- Which particular investment mandate (Canadian stocks, foreign stocks, corporate bonds, government bonds, real estate, etc.) should be over-weighted or under-weighted;
- Which economic sector will outperform or underperform;
- Which stocks will outperform compared to the index;
- The impact that world events will have on the stock or bond markets.

Sensible investing will give you the best results over the long term—but it's boring. If you're investing because it's a fun thing that you enjoy, then it doesn't matter what you do—because you're having fun. If it is important to match the index return, then you need to understand that any investment strategy based on being able to predict the outcome of events over which you have no control would be based on luck and your chances of long term success are slim.

Occasionally investors do get it right, but occasionally is not enough. For example, some investors called the top of the stock market in 2008 and sold or pared back on their exposure to equity holdings. But to be successful, those who got out at the top also had to re-enter the

market at a low point and hold on through the recovery—even if the market continued falling after getting back into the market. If they didn't get back in at the right time, these investors would have had better results by simply rebalancing at a high point (locking in their profits) and rebalancing after stocks plunged (buying stocks on the cheap).

Most of the time when investors try to predict/time the market they get it wrong. In an article by Russel Kinnel, the director of manager research and the editor of Morningstar® FundInvestor℠, he points out that "the typical (mutual fund) investor gained 4.8% annualized over the 10 years that ended December 2013 versus 7.3% for the typical fund."

In this study, the performance of mutual funds was better than the performance of the investors who bought them because the investors were wrong in their predictions and bought into the equity funds near the top of the market and sold the equity funds near the bottom.

Fortunately you don't need to be able to predict the unpredictable in order to manage your money wisely. If you have a 'goals-based' portfolio and follow a disciplined rebalancing program, then uncontrollable or unpredictable events will have no lasting negative impact on your performance. In fact, stock market corrections will provide an opportunity to enhance your return as you rebalance and buy more stocks when they're cheap.

The simple and sensible investing approach outlined below (which should take no more than one hour per quarter) will deliver the investment returns necessary to achieve your goals:

1. **First, accept personal responsibility for your investing success—or failure;**
2. **Do the necessary soul searching to clarify your most important goals. Remember: you don't take anything with you when you die;**
3. **Have a financial plan prepared which shows the rate of return that is necessary to achieve your most important goals. For some people the goal is simply to know that they are managing their capital prudently;**
4. **Choose a 'goals-based' asset mix that takes enough risk (but no more risk than is required) to earn the rate of return necessary to achieve your goals;**
5. **Follow a disciplined investment process, including rebalancing when your asset mix breaches the upper or lower end of the acceptable range;**
6. **Use a detailed Investment Policy Statement to minimize your emotional response and/or to hold your financial advisor accountable;**
7. **Measure performance compared to the proper benchmarks so you know if you are on track to achieve your goals and whether or not value is being added;**
8. **Pay attention to fees (reasonable fees make sense if value is added, but even a tiny fee is too much if no value is received);**
9. **Eliminate individual stock risk by using ETFs or professional investment managers;**
10. **Match investments to the proper time horizon;**
11. **Minimize income tax by paying attention to how investments are allocated between sheltered and non-sheltered accounts, corporate accounts, trusts, etc.;**
12. **Recognize it is the 5- 10 year performance numbers that are important. What happens on a monthly or quarterly basis is unimportant.**

It makes perfect sense to delegate the management of an investment portfolio to a financial advisor. But this only works if you also act like a CEO and demand to see performance results compared to the proper benchmarks—so you can easily determine if your advisor is adding value. If you delegate decision-making to an advisor but you don't compare results to the proper benchmarks, then you fail the 'wise investor test' and you should expect to underperform!

Investors should focus on achieving their long-term goals. An investment portfolio is only a tool to this end. While it's almost impossible to make accurate short-term predictions, it's quite possible to make longer term predictions about the relationships between stock markets, bonds, interest rates and inflation. By following a disciplined strategy, based on long term historical trends, long term goals can be achieved with minimal effort.

Life is full of uncertainties. You can worry about your

health or the health of a loved one, your relationships, the environment, the economy, etc., but if you follow the 12-step program mentioned above, there is one thing of which you can be certain—and that is that you are managing your capital wisely!

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