Biz Voice

Mind these investor truths

No shortcuts through stormy economy.

Be patient, be smart, diversify and stay rooted in investment basics.

By **Matt Burton**
For the AJC

Despite some encouraging financial trends over the past few months, investor uncertainty and pessimism seem to be reaching new depths.

There's only one way to get through the choppy spots, though, and that's to boost your outlook with a few simple truths. In the market, as in human nature, some things never change:

Simple Truth No. 1: Risk and return are inseparably linked.

Picture a 19th century locomotive and its coal tender car. One goes nowhere without the other. Of course, the locomotive may de-couple from the coal tender for a brief time (it happens in Western movies), but ultimately the big engine will be forced to stop.

In similar fashion, various "new" and "sophisticated" market strategies may appear to produce excess returns without corresponding risks, but, in my experience, either the risk is masked or the strategy runs out of steam.

Risk and return are inseparably linked, says investment consultant Matt Burton. Don't overreach in a rush for riches.

During the technology boom of the 1990s, Garrett Van Wagoner was one of the rockstars of the mutual fund world. In 1999, the Van Wagoner Emerging Growth Fund gained 291 percent (from $189 million to $1.5 billion in one year). If you invested $10,000 in the Emerging Growth Fund at the beginning of 1997, you would have cumulated $45,000 by March of 2000. Van Wagoner was hailed as one of the greatest investors of all time. Then, in 2000, the Emerging Growth Fund lost 21 percent, in 2001 it lost 60 percent, and in 2002 it saw a loss of another 65 percent.

The $45,000 that accumulated in 2000? It would have been worth only $3,300 by the end of September 2002.

Moral: The locomotive roaring around the mountain always faces the chance of a rock slide.

Simple Truth No. 2: Never forget the long term. In an age of microwave popcorn, on-demand movies and instant news updates, we are plagued by time compression and information overload.

One quarter has a sense of finality – the concept of years or even decades spent holding on to investments seems anachronistic.

A finance professor once offered his investment services to a class of graduating seniors. If they paid him $1,000 up front and signed an ironclad agreement to follow a handful of mundane, financially conservative tips, he could guarantee that one day they would be considered rich. Really rich. But the catch was this: They would also be old. No one was interested.

We all want wealth, but we also want to be young. In our haste, we overreach, exposing ourselves to more risk than necessary, refusing to acknowledge the truth that real wealth takes time. Put that on your morning mirror.

Do you really want to make a big move in the get rich quick game? Assess the risks before jumping forward – don't let the glitter of future riches blind you to the potential costs.

On the other hand, before you sell anything, check to make sure that all of your bases are covered. Reduce your debt as much as possible. Weigh the liquidity of your investments. How hard is it for you to monetize a large portion of your portfolios? Diversify your forms of cash flow. Investment income is good, but investment income that comes from multiple sources across multiple asset classes is even better.

Simple Truth No. 3: Remember asset diversification is like a vaccine against major capital destruction. Too often, either through overreaching for return (the politically correct term for greed) or through complacency, investors lose perspective of what constitutes their entire portfolio – the risk exposures they have and the concentrations they harbor.

Investors naturally invest in areas where they are most comfortable, and they tend to over-concentrate in those areas that they have succeeded in. It is better to take a more disciplined approach.

Classify your entire portfolio into five major components (The Big Five): cash, fixed income, stocks, real estate and tangible investments. Assign a percentage weight to each. For most investors, each asset class should represent at least 10 percent of the overall portfolio. At a minimum, check your allocations semi-annually. Avoid the marketing machine of Wall Street when it presents a new "asset" class that it recommends make up 5, 10, or 20 percent of your portfolio.

Final truth: Hold on. The market is coming back. Until then, stay rooted in the basic truths of investing, and focus on using your gifts and talents to best pursue your calling and career.

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