Ours Is a Noble Profession

By Joseph J. Matthews, AIF®, CFA, CFP®

As my 50th birthday approaches, I reflect on the past 25 years of my life as an investment consultant and am amazed at all the angst that has been thrusted upon investors during that time.

Today we can see it in the eyes of fixed income investors as they stare at generation-low interest rates at the tail end of a 30+ year bull market in bonds. Equity investors have had it easier as of late with several domestic indices making new highs recently. In some cases it is finally matching highs reached 15 years ago, which had its fair share of tumult.

The two catastrophic equity bear markets of 2000 and 2008 certainly caused tremendous amounts of financial damage and mental suffering – a pain that unfortunately is still influencing many investors' decisions today. Also in 2008, the housing bubble saw the end of a 40+ year bull market in home prices. It's been a long, emotional roller coaster on many fronts for all of us.

Our role as advisors is to make this ride as tolerable and rewarding as possible. In that context, our primary responsibility is to construct portfolios consistent with three things: client investment time horizon, risk tolerance and need for liquidity.

By doing so, we put our clients' portfolios into a structure that we believe can produce a range of outcomes consistent with their goals. Our ability to intelligently assess our clients' financial situation and behavioral predispositions in conjunction with their objectives is the swing factor in their success. As their trusted advocate, this is a significant advantage we possess over a computer.

Unfortunately, for the average investor the ride has not been a pleasant one. According to Dalbar's 20th edition of their Quantitative Analysis of Investor Behavior (QAIB) study, U.S. stock and bond mutual fund investors materially underperformed their respective benchmarks from 1984 to 2013. Investor returns in fixed income mutual funds was 0.70% *per year* versus the Barclay's Aggregate Bond Index's annual returns over the same time period of 7.67%. Equity mutual funds investors didn't fare much better. They averaged 3.69% *per year* versus 11.11% for the S&P 500 index.

These numbers confirm what we already know. Many investors liquidate at or near market bottoms only to miss out of the ensuing rallies. After all this is what market bottoms and tops are made of, investors herding into and out of markets at incredibly inopportune times. These types of results will often materially affect investors' ability to exceed or even meet their financial goals.

As an example, a 45 year old starting with $250,000 in a portfolio of 60% stocks and 40% bonds, adding $10,000 annually in the same proportion, would have $2.3 million if performance matched typical stock and bond indices – or just $667,000 by age 65 if performance matched the average investor's returns. Clearly this is a significant difference that can impact the investor's retirement lifestyle, philanthropic intentions and his or her legacy goals.

Through the faith we have in our recommendations, we can meaningfully change investors' lives financially for the better. As a trusted advisor they can seek out in difficult times, we can often steer them toward better decision making.

However, we are constantly defending our livelihood. Investors are continuously reminded that they are capable of making their own investment decisions *and* that fees paid to investment professionals can be the difference between their success and failure. These individuals conveniently avoid discussing the realities of the impact of poor decision making on the probability of one's success. The conversation is typically centered on short term *investment* performance – not long term *investor* performance.

One of the most influential books I have read is *Managing Oneself* by Peter Drucker. In this book, Dr. Drucker encourages his readers to ask themselves several questions: What are my strengths? What can I contribute? What are my values? As a finance professional committed to lifelong learning and putting your client's interests above your own, it should be apparent where your values lie.

Understanding who you are and what strengths you possess will allow you to gain a very clear perspective on your makeup. This will lead to something very important. As Dr. Drucker stated in his book, "Only when you operate from a combination of your strengths and self-knowledge can you achieve true – and lasting – excellence."

Your clients deserve this from you and you deserve it for yourself. And in doing so, your clients will have a partner and role model that operates from their strengths in the pursuit of long term success.

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