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Five (Investing) Rules To Live By

In today's world of investing, it's easy to be whipsawed by the words of wisdom espoused by various gurus. Noisy rhetoric is not always accurate—no one has a crystal ball, so prognosticators can't know for sure what the markets are predicting. But heeding a simple set of guidelines may keep investors centered, help avoid unforced errors, and maintain a path to achieve their goals.

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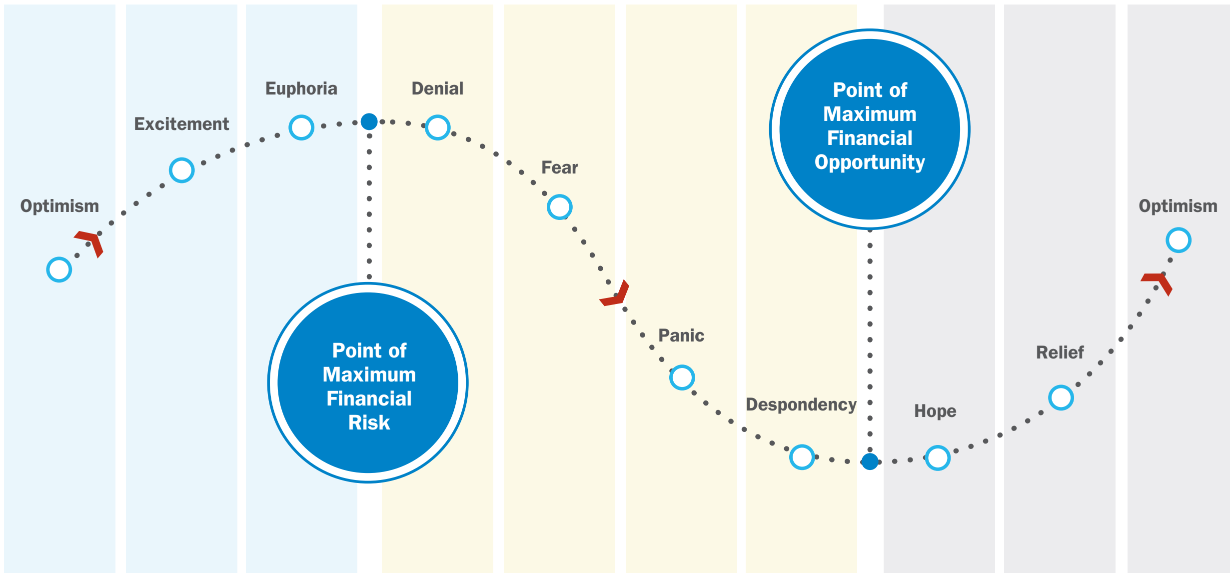
Every now and then, it's a good idea for investors to step back and consider some basic principles to help guide their investing decisions. In that spirit, we're offering a rare list of five things to keep in mind when considering what to do in the ever-churning world of markets and a new climate that offers daily dramas.

Rule #1:
Filter out the noise

We live in a word suffused with news, and most of it is negative. The 20th century newspaper cliché "if it doesn't bleed, it doesn't lead" is doubly true in an internet, cable-news, 24/7 culture. With so much cacophony, the loud and the alarmist are what penetrate the noise. So does the endless need to come up with neat stories that explain how markets are moving, even if those stories change daily. With very rare exceptions, the noise *du jour*

Figure 1:
The Cycle of Market Emotions



Source: Christianna Wood/Westcore Funds/Denver Investment Advisors LLC, 1998.

will not lead to sound investing decisions, nor to a better understanding of what is going on in the world.

Rule #2:
Ask whether it's true

Investors clicking on news sites or glancing at headlines find that the statements are often conclusive and unambiguous. "Markets sink on fear of trade war." "Interest rates surge as consumer spending picks up." "Get ready for inflation, says strategist." It's easy enough to take those pronouncements at face value, or to internalize those messages without really intending to. But given the culture of noise and the incentives to go to extremes, it's more vital than ever not to assume anything is true without doing a bit more research. Especially in an era where there are real challenges of false news, assessing whether something is true can be the difference between acting on bad information and making measured decisions.

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Rule #3:
Respect emotions, but don't act on them immediately

We often hear the admonition not to trade or make investing decisions based on emotions, whether they be fear or greed or any others. That might be true in a universe populated entirely by rational actors, but humans have emotions. Respecting that fact would seem a better course of action than rejecting it, and emotions tend to be valuable and vital. While fear *per se* is rarely a good foundation for making investing decisions, investing also shouldn't be a constant source of fear, and if it is, it's probably time to reconsider how one is invested. The choice isn't between acting impulsively on emotions or ignoring them; rather, the better choice is to respect the emotional triggers, see what underlies them, and then assess what action to take.

Rule #4:
No one knows the future

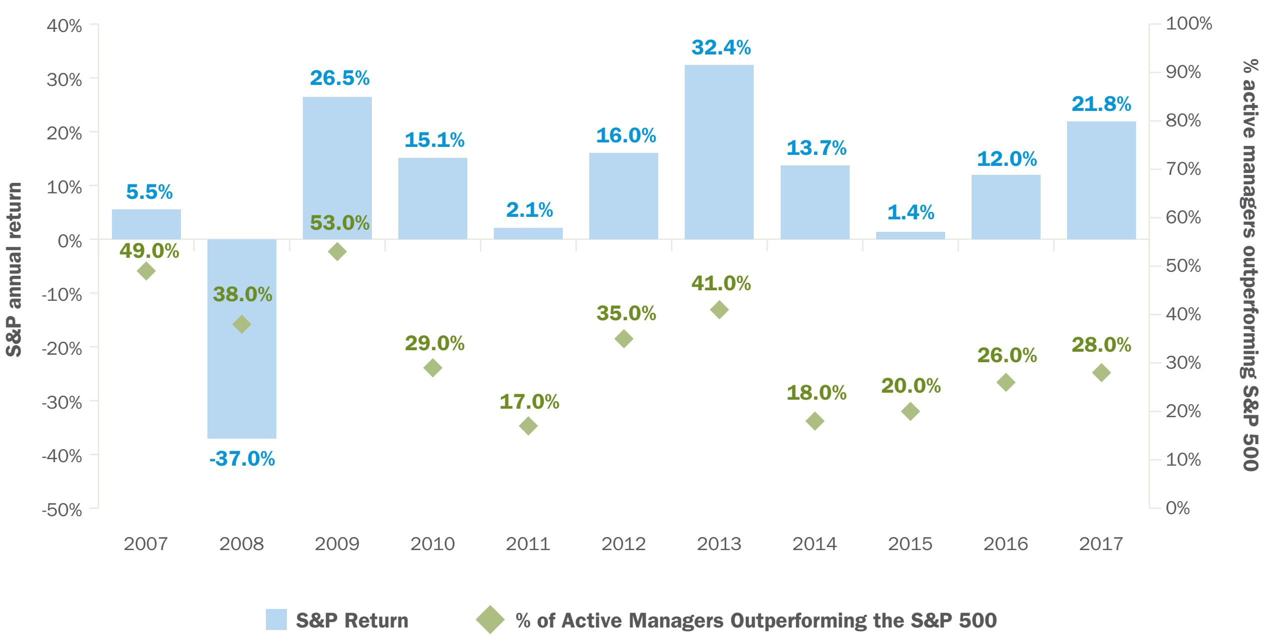
Talk about an obvious statement that somehow isn't so obvious when we listen to market commentators, pundits, and even investment professionals. For too long, market mavens who exude certainty have been rewarded over those who admit that there's much in the market that they don't know, and that the future is and always will be *terra incognita*. When a respected investor says something such as, "Of course, interest rates are going higher," or "Markets are by any measure overvalued and are due for a correction," the next question should be, how do you know? Past patterns might suggest certain future likely outcomes, but frequently, patterns break down, or the unexpected and unprecedented happen. Listen to what everyone has to say, but if someone seems certain about future outcomes that are inherently uncertain, that should arouse some skepticism.

Rule #5:
Don't worry too much about beating the market

In recent years, as the rise of personal benchmarking demonstrates, investors have come to question whether the "beat the market" mantra makes sense in many cases. The goal for the vast majority of people and institutions invested in markets is to achieve a set of goals, whether that means an endowment or pension plan meeting its obligations, an individual achieving retirement goals, or a family being able to afford a home. A laser focus on beating market returns could be at cross-purposes with reaching those goals,

Judge success based on performance versus index, or achieving specific goals?

Figure 2:
Even the Best Active Managers Have Difficulty Beating the Market
Annual S&P 500 Performance vs. % of Active Managers Outperforming



Source: Morningstar. S&P 500 represented by S&P TR USD; active managers represented by Fidelity 500 Index Institutional Premium (2012–2017) and Fidelity Index Premium (2007–2011).

especially if doing so means taking on more risk or more volatility that could lead to higher returns over time, but also complicate when and how specific goals are met. There also is a tendency to judge success based on how well one performs relatively to a market index, when it is often the case that success means achieving specific goals.

It's never been easy to distinguish the signal from the noise—to take a step back from the maelstrom of news and ask whether goals are being met regardless. It's harder than ever today, with both the velocity of news and the speed of market moves accelerating. Tuning out is a mistake, but getting caught in the whirlwind is a risk. These five guidelines have been articulated by others, and they will be repeated in the future. They may not always lead to investors' achieving the returns they want, but they almost certainly will not lead them astray. ■

May/June Takeaway:

In today's investment world, news and market moves can keep investors off balance, rather than staying the course to accomplish their goals. Filtering the noise, distinguishing fact from fiction, respecting emotions and their underlying triggers, adopting a healthy dose of skepticism in the face of pronouncements from market mavens, and staying focused on achieving goals versus beating the market can be useful tools to guide their investment decisions. Although no guarantee for achieving goals, keeping these guidelines in mind may make for a smoother ride and help avoid costly mistakes.