

Financial Insights

An advisory advocate helping the Community.

How to save yourself from the disastrous investing results experienced by typical Americans

“Investor returns in this wonderful investment era have ranged from the sub prime to the ridiculous. If mutual fund investors can derive only single digit returns in a mid-teens return environment, prospects are apt to be all the more frustrated in an era of lower financial returns.” Morgan Stanley, U.S. Investment Perspectives, April 2002.

The active management mindset has failed Americans Miserably.

Americans have become hyperactive about their money. It's no wonder. With information coming at them from every direction via newspapers, magazines, radio, financial news stations, Americans are subject to a round -the-clock onslaught of financial advice, in the form of advertising, advortorials, newsletters, spam, TV and direct mail. Should we be surprised that Americans hold equity funds for just two years on average?

The problem is that hyper-management just doesn't work for most people. For most it means financial losses, excessive commissions, A,B,C shares, deferred sales loads, poor fund performance, asset allocation, rebalancing, analyst with conflicts-of-interest, unnecessary capital gains, reinvesting your money while a fund heads south, dollar-cost-averaging, wrap fees, broker commissions, and to top it off, smoken-the-books, picking stocks without no earnings or revenue's. In the final analysis, unsatisfactory investing results.

Understanding what you are really losing.

People deprive themselves of the benefits investing should provide them. Unable to control emotions, people repeatedly buy and sell at the wrong times and, as a result, typically fail to generate results that even remotely approximate the market averages.

The discrepancy between the 12.22% annual return of the S&P 500 and the 2.75% return realized by the typical American investor should send a chill through every financial services professional, yet alone the individual investor.

My recent advisory encounters with individuals investors

I start everyday, with a positive attitude and a splash of morning java. Early in the morning, the down-loads are completed and throughout the day, I monitor my client accounts, countless indices, checking to see how my recommended positions are performing, in comparison, against my disciplined screening. I've been doing this for twenty four years, Having a daily commitment to your investment fundamentals and technical expertise is a necessary requirement, besides, its also a fiduciary responsibility, its my passion.

In some ways, it's like sports, you have to have disciplines, strategies, a game plan, that is measurable. An approach that will withstand what-ever the market environment brings your way. It's called risk management, because even the best professionals don't know all the risk factors that will require avoidance, especially, when it comes to wealth management.

The fact that no one knows all the risk factors, yet alone future risk of an investment, is why my strategy works. In the Twenty or so years of my active profession, I can tell you what hasn't worked and I can also share with you what does.

A historic reminder

Can you remember back in the early eighties, fixed rates were double-digit, the Banking Crisis, Real Estate Values soared and then hit the skids, (Tax Law changes stretched out the depreciation schedules), when the craze was being advised by some financial so-called advisors for clients to invest in Gold Coins, Investment Grade Diamonds, then came along Real Estate Limited Partnerships, Time Sharing, buy term-insurance /invest the difference, Invest in Storage facilities, October, Black-Friday, market plummets, A lot of investors lost their shirts.

As an advisor, I never personally participated in any of these, nor recommended them to a client. However, buying term insurance was a good idea then and still is today. It's just that most people bought term insurance and made bad investment.

The Nineties - Peace time economy. First time since the sixties that the U.S. Government had a budget surplus, not deficits. We were in the biggest Bull-Market, historically experienced since the inception of the New York Stock Exchange. Every-one was making money, people were happy, free trade was working, plenty of jobs, despite higher taxes. People didn't mind higher taxes when you're in a robust economy. But, then again, the indices, starting in March of 1999, the NASDAQ, began its historic plunge! Dragging, just about every other index along a steep downside.

I can remember and you may recall, some publications, were saying, it's just a short correction, like the Black Friday in October, some years before. Don't get out of the market, because, after these downsides, that the market heads higher, it didn't. Not until 2003.

Actually, people were buying into this, what I call, a rolling down of the indices. Indexes were heading south, then they went up sporadically and people were buying into this, thinking the market was going to head back to its previous highs. After all this remarkable Bull-Market can't be over and another page is turned.

During this period, as an advisor, actually seeing this daily market volatility, like nothing before. I decided that what was taking place only happened once before, the market-slide that began in the late 1920's through the early 1930's.

Actually, if you took the DJIA graph from that historic time and took the most recent graph of this event, they appear very similar. I did this and it was remarkable. My conclusion, market cycles do repeat themselves, not exactly, but with similarities.

During this event, right around the inception of this massive so-called correction, I began moving our clients equities to more secure positions, even money-market instruments.

Actually, many of my clients did want this change, but couldn't understand why. I showed them the graphs of the rolling down and it helped them to see that my concern was to minimize the impact of them experiencing a loss of principle.

Our continued monitoring, and our underlying foundation of the client initial investment (principle), is always invested through instruments that will guarantee the investor's initial return of principle. This will also generate income to the underlying principle, that we earmark for the equity side of the client's account/portfolio. Thus while guaranteeing no loss of principle, you can still invest into equities.

This is a time tested strategy, that works well and is completely different than any other advisory approach towards wealth preservation while still participating in the equity markets. It removes the risk from the initial investment, while allowing the client to have a higher income stream or income that can be earmarked for the equity allocation approach. I do utilize the allocation, diversification with a simple buy-side / sell-side approach on the equities, but equity allocation comes into play, only after we have shown the client why you should not directly exercise asset allocation of the initial investment.

Since 1980 and knowing the history of the markets; change is inevitable, market cycles, ups and downs, past Black-Friday's, Past and current long-term Bear markets, Tax changes that affect investment, current mutual fund scandals, false corporate financial filings, analysts making recommendations that serve their own personal gain, Professional's who manipulated the price of their corporate stocks, asset allocation (don't put all your eggs in one basket) is all this is, and doesn't work. Rebalancing, makes it no wonder why so many people really don't know what works, forget about how it is supposed to work.

The fact that it isn't working, is the reason why so many investors lost their shirts. Add on the emotional investor, market timing their portfolio, having a diversification of stocks, like 100 individual securities and 59 of these stocks are down and 41 are up is ridiculous, when it is done with an investor's initial investment of principle and that is where the risk situation begins. Right at the very beginning.

Our approach doesn't follow the crowd and that's what makes us unique and able to say, we never lost our client.

initial principle and who can say that.

Actually, I had a number of clients inform me, that had we not exercised our experience and implemented the initial invested principle, the events that we are all familiar with would have had drastic results. We never lost our client initial investment since 1980 and I wasn't about to allow this event or any event change this long time standing. Today, it is considered a tradition of our work.

Not to mention, that no matter how sophisticated your technologies are, for use of allocations, investment, portfolio efficiency, all works well in normal investment environments. They do not work well in abnormal investment environment.

That's when experience comes into play. Let's face it, you can't have the flight on automatic pilot all of the time, especially when your flying through inclement (volatile) weather!

It takes experience to fly through some of this. And anyone with experience would know, that if you see a storm coming, avoid it, go around it, and that's risk management. Besides, the only thing that can happen when a storm is present, is a delay of the flight. You wouldn't have lost anything, other than a little time.

I provide experience with superlative measurable results. My firm provides 24/7 client account access, email alerts, consultations, with you and your tax professional or attorney, telephone (real live person), full analysis of current investments in comparison to our recommendations, full analysis of your current investment costs compared to our advisory/client schedule. I provide full disclosure.

I do not entertain being paid by commissions in the implementation of our clients portfolio. I am a fee-only advisor. I work strictly by fee and my fee structure is lower than any other advisory and it is also negotiable.

If your following the crowd, you just might want to call our firm. We advocate fair and full disclosure. We are an advisory leader whose philosophy is to set high standards and always put our clients best interest before all else.

In short, I believe in our way of life. That our culture provides all of us the possibility of personal fulfillment, to educate ourselves, our families. To experience the ownership of your personal equities and most importantly to pass it along to those we love and those in need.

Always, feel free to inquire and your initial consultation is without any obligation. I can be reached at 1-508-224-9646. Visit my firm's website at www.GreenAdvisory.Com

Michael D. Green - "Their is no substitute for Honesty and Trust."

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