PREMIER
WEALTH MANAGEMENT, LLC
Caring for you and your future

CRAIG PULLIAM CFP®, AIF®, CLU®, REBC | MICHAEL R. COMSTOCK CFP®, AIF®
WWW.PREMIERCARES.NET

"When a Little Pain is Good for Your Portfolio"

Most of us don't like seeing some of our investments underperform or lose ground while others gain. Show a client a portfolio that's up 10%, and they're likely to focus on the three investments that lost value, not the 10 that grew. It's just the way we're wired.

- **Pain is a Sign of Life:** Occasional dips for some investments are a sign your portfolio is dynamic and some of the elements are doing things differently. If everything does the same thing, your portfolio could dry up as quickly as a puddle after a summer rain if things turn badly.
- **Correlation is a Key:** Correlation measures the relationship between investments. Those with high correlations tend to move in the same direction at the same time. When investments are highly correlated, they tend to go down or up together. However, if some have weak or negative correlations, it's probable (statistically) that some will be up when others are down (less likely in a wholesale sell-off like 2008-2009); and down when the bulk of the others are up (that's the pain). Over the last 10 years, bonds (Barclay's U.S. Aggregate Index*) have had a negative correlation the S&P 500 Index* (J.P. Morgan Guide to the Markets).
- **Are we Talking about Diversification?** You bet. Allocation, diversification, correlation . . . all that stuff. Boring? Well, it might be to most investors. But diligent, intelligent allocation to stocks and fixed income, to embracing different asset classes and parts of the globe, and to mindfully *avoid* putting all investments into a lockstep march up and down . . . has historically worked well and served to reduce volatility through long periods (this is no guarantee that it will do so in the future).
- **More is not Always Better:** Often when someone is referred to us, we find they own a dozen or more investments, maybe some 5-star rated. The potential client figures "I must be diversified with all this great stuff, right?" Time and again the answer is "No." When we analyze the mix, we find that the portfolio is 90% in large U.S. companies, and the rest in junk bonds (or something similarly skewed). They have huge gaps. *Owning a bunch of stuff with different names is no guarantee of a proper mix, regardless of the brand names or ratings*.
- **Is this a Pitch for Buy and Hold?** Not so much that as being really thoughtful about portfolio construction, gauging risk and volatility, and resisting the impulses to switch investments based upon economic "noise." We believe in rebalancing the portfolio occasionally (being sure the allocations stay within your objectives),

be met. Talk to your financial advisor before making any investing decisions. replacing investments when called for, tactically and subtly shifting weightings in investments when it makes sense, and knowing when to become a little more defensive in highly volatile times. None of this means that we're doing a whole lot of buying and selling. Historically, this has smoothed the ride for clients.

- **A Smoother Ride can Mean More Money:** Having some assets with lower correlations can potentially reduce volatility and risk, and actually grow your nest egg more than having a higher risk portfolio, *even if they have the same average annual returns* (this is not guaranteed, of course). Take $100,000 invested in two different portfolios each averaging 10% annually: a high volatility mix with returns of -50%, +50, +30% gives you $97,500 at the end of three years; while a lower volatility portfolio with returns of -25%, +30%, +25% leaves you with a tidy $121,875. We use this hypothetical for illustrative purposes only.
- **Market Superiority is Fleeting:** Investing in what's been hot, or what you think will be, doesn't work too well. Looking at 10 asset classes over the last 20 years, large U.S. growth stocks (Russell 1000 Growth Index*) have been in the top two 7 times, but also in the bottom two 4 times. Commodities (Bloomberg Commodity Index*) have been in the top two 4 times, and the bottom two 8 times. This feast and famine plays out in most of the other 8 asset classes. But owning a diversified mix of all 10 asset classes would have put you right smack in the middle in almost every year, and that lower volatility is important (see above)**. You'd have a smoother ride, possibly more money, and could avoid potentially devastating mistakes (source, MFS Investments, 20 Years of the Best and Worst).

Winning in investing can follow a pretty simple formula. These thoughts represent one aspect of it. You don't have to be a gambler, just have a cool head and some discipline.

The problem for the average investor is that this "simple formula" doesn't mean the execution is easy. *People get sidetracked by emotional impulses, they don't know how to sort through all the investment and financial information, and too often second guess themselves.*

Craig Pulliam and Michael Comstock are CERTIFIED FINANCIAL PLANNER™ professionals practicing at 112 Westwood Place, Suite 310, Brentwood, TN. They own Premier Wealth Management, LLC. Advisory services offered through Commonwealth Financial Network, a Registered Investment Adviser.

We can be reached at 615-777-2125.

Back issues of our Commentary may be found at www.premiercares.net