The Learning Curve

By Gary Case

Earlier this week the Federal Reserve Board of Governors decided to leave the Federal Funds Rate unchanged, the first pause in many months the its pattern of raising rates at each meeting. Rationale for leaving rates where they are is the Fed's expressed view that inflation presently is less of a worry than a slowing economy. Naturally, the US stock markets fell on the news, and when stock markets fall, many folks consider selling their stock positions.

As I stated in my last column, the time to be fully invested is when the consensus in the news is that markets are in poor shape and are expected to get worse. A recent article in the Wall Street Journal pointed out that while many mutual fund companies advertise eye popping returns over a certain period of time (a period chosen by the advertiser specifically to show the best possible results); investment returns often times far outpace investor returns. Indeed, studies often show that investors tend to flock to a particular fund just after the fund's performance has peaked (see previous sentence for the reason). A possible remedy to this unfortunate reality is to have a reason other than recent hot performance to invest and a reason other than recent underperformance to sell.

Morningstar, a company that provides investors information about investments, has announced that it will launch a statistical measure of investor returns versus investment returns in the near future. This may be a helpful tool in evaluating whether a particular fund attracts money during hot performance times as opposed to holding investor's fund over a longer period of time. To use a euphemism, it is rarely market timing that matters, but time in the market.

Another tool for evaluating whether a particular fund or fund family chases money infusions for hot market trends is to review sales literature purveyed by the company. Companies that have sales literature abut investor expectations being too high or about how their funds fare during poor markets might merit further investigation, whereas sales literature touting recent performance of a particular fund or market sector may indicate that the best time to invest is past.

To be fair, my remarks are intended for investors, not traders. Traders have different goals than investors in that traders are about making profits from short term market movements. Trading, in my opinion, is best practiced by those with the resources dedicated to uncovering fleeting market inefficiencies. For the rest of us, a well-planned investment policy will likely take us closer to our financial goals.

Gary Case, CFP®, Cornerstone Financial Planning, 917 2nd Street South, Nampa, 466-1971, is a Registered Representative of Cambridge Investment Research, a Broker/Dealer (Member NASD/SIPC) and Investment Advisor Representative of Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor. Cambridge and Cornerstone are not affiliated. This column is for informational purposes only and should not be used as the primary basis for an investment decision. Consult an advisor for your personal situation.