
Are You a “Magic 8-Ball” Investor?

There are no crystal balls when it comes to investing

By Bill Bender, CPA, Mason Road Wealth Advisors

In a typical scenario, Dr. Smith (Case 1), who is busily rushing throughout the day to see patients, returns a phone call from his broker, John, who says that his research department has discovered the ABC Company is rapidly expanding into many states, their earnings are increasing, the stock has plenty of room to move, and there is the possibility of a takeover. John asks Dr. Smith if they should start with 1,000 shares, and Dr. Smith, in a hurry, says that if John thinks it's a good opportunity, to go ahead and buy it. Dr. Smith does not follow ABC Company and has no way to compare its performance to any benchmark. He has relied on John to inform him of the opportunity and has most likely paid a commission on the purchase.

John also tells Dr. Smith (Case 2) that his brokerage firm has a money manager, Tim, who was in the top 10% of his sector last year and suggests that Dr. Smith give him a chance with some of his retirement money. Dr. Smith, again in a hurry, thinks that if Tim had good returns last year, he will most likely have good returns again this year, so gives a portion of his retirement money to Tim to invest.

If you see yourself in either of these situations, you are not alone. Let's look at the facts in Case 1. ABC Company is rapidly expanding into many states. Is this something that a research department needs to uncover, or is it something that everyone would realize (i.e. Starbucks)? The fact that ABC Company's earnings are increasing is available to anyone with internet access. The fact that ABC Company is a takeover candidate is true of every company that trades on the exchanges. Basically, John is just providing information that is available to every investor in the world.

Do you have the time to devote to doing the research to choose next year's winning stock or mutual funds? Even if you had the



Bill Bender, CPA

time, any information you can access is available to any individual playing the market. In the current information age, there is little advantage to buying or selling a stock based on a “tip” that something specific is happening with that company. If the information isn't available to the general public, it may be insider information. We all remember what happened to Martha Stewart.

In Case 2, academic evidence shows that the top performers in one year have a much better chance of being in the bottom half of performers the subsequent year than in the top half. Historically, buying last year's winners gives you a very good chance to ending up as this year's loser.

There are no crystal balls when it comes to investing. Academic research shows that roughly 15% of active money managers beat their benchmark index in any given year. Only 10% beat the benchmark over a five-year period, and only 2% beat their benchmark over a 15-year period. Would you recommend to a patient they have surgery if their chances of improvement were only 2%, but they had a 98% chance of being worse or no better? These are the equivalent returns of using an active stock broker or money manager, or attempting to do it yourself.

Past history has documented that only four out of twenty-two of the top financial advisors for the largest (billion dollar-plus) pension funds in the United States have beat an asset allocation with a 60% stock (S&P 500 Index) and a 40% fixed income (Government Bond Index) portfolio in the years 1988-2004. These advisors are paid many thousands of dollars every year to choose winning stocks. They devote all of their waking hours to researching and recommending stocks to buy and sell. Of the thousands of stocks available, it is their job to choose which ones are traded in these billion dollar pension portfolios.

Do you rely on your broker to recommend the “best” stocks to



Calendar

April 10

SLMMS Council, 7 p.m.

April 12

“Exploring New Frontiers: The Minimally Invasive Surgery Advantage,” 7:30 to 10:00 a.m., St. Louis Marriott West. Presented by the St. Louis Area Business Health Coalition. \$20 in advance, \$30 at the door. Information, Melanie Watson, (314) 721-7800 or mwatson@stlbhc.org.

April 12 and 15

MSMA Council Meeting, Westin Crown Center, Kansas City

April 13-15

MSMA Annual Convention, Westin Crown Center, Kansas City

May 4-5

30th Annual Family Medicine Update CME Conference, Peachtree Catering and Banquet Center, Columbia, MO. Sponsored by University of Missouri School of Medicine, Dept. of Family & Community Medicine; MU Sinclair School of Nursing; Mid-Missouri Area Health Education

Center. Accreditation: Category 1 AMA, Nursing. Information, (573) 882-0366.

May 8

SLMMS Council, 7 p.m.

May 18-19

29th Annual CME Conference: Common Childhood Problems (focus on pediatric office dermatology), Reynolds Alumni Center, University of Missouri-Columbia. Sponsored by University of Missouri Health Care, Dept. of Child Health; MU Sinclair School of Nursing; Children’s Hospital; Mid-Missouri Area Health Education Center. Accreditation: Category 1 AMA, Nursing. Information, (573) 882-0366.

May 24

Missouri Foundation for Health annual Health Summit, “The Intersection of Health & Business,” 9:00 a.m. to 4:00 p.m., Renaissance Grand Hotel. Information, www.mffh.org or (314) 345-5500.

June 12

SLMMS Council, 7 p.m.

June 15-17

Comprehensive MRO Training and AAMRO Certification, Ritz Carlton, Clayton. Information and registration, Cindy Ferrell, 800-489-1839 or cferrell@aamro.com; www.aamro.com.

June 16-17

MRO Update and Training Program, Ritz Carlton, Clayton. Information and registration, Cindy Ferrell, 800-489-1839 or cferrell@aamro.com; www.aamro.com.

June 23-27

AMA Annual Convention, Chicago

List your events: Please send listings of continuing education programs, organizational meetings and other events related to the practice of medicine, to *St. Louis Metropolitan Medicine* by e-mail to editor@slmms.org, by fax to (314) 989-0560, or by mail to Editor, *St. Louis Metropolitan Medicine*, 680 Craig Rd., Suite 308, St. Louis, MO 63141.

buy and sell? Which mutual funds to buy and sell? Which money managers to use? Does your broker really have information that is unavailable to these top advisors? If only four out of the top 22 advisors actually “win” with their choices, what hope do the rest of us have?

We can use our Magic 8-Ball and make our decisions based on weak information, or we can “buy the market.” If we buy the market, we will be ahead of the other 17 advisors cited in the above statistic.

How do we buy the market? One way is to practice a “buy and hold” strategy and hold a variety of mutual funds through passive investing. This mitigates any trading fees that would be paid if stocks are actively bought and sold. Paying commission or trading fees lowers your overall return. If your broker is being paid on commission, there is extra motivation for him/her to trade regularly.

If, as an investor, you “buy the market,” there is no need to spend hours researching which stocks to buy or sell. The information you gain would be of little value, as other investors are able to uncover

the same information. There is no need to watch a particular stock go up or down because you have not put your investment in a specific company. You have put your money into a wide variety of funds that represent the market.

Historically most investors have been happy realizing market returns on their investments. Think of all the time you can save by adopting this simple strategy. Ninety-four percent (94%) of your returns come from sound asset allocation; only 2% from market timing and 4% from actual stock selection. Once you have the proper asset allocation your portfolio should be on “auto pilot.”



Bill Bender, CPA, is a principal of Mason Road Wealth Advisors representing the well-respected Dimension Funds. SLMMS has a special partnership with MRWA, which offers SLMMS members a discounted advisory fee and access to these highly sought funds with a lower minimum investment than commonly offered. For more information, call Bill Bender or Lori Plescia, Director of Retirement Plan Services at (314) 576-1350.
