Don’t Spend Too Much Time Managing Your Portfolio

What counts is results, not effort expended

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As children we are taught that joy should come from our efforts, not necessarily from the result of those efforts. Not everyone can climb to the top of a mountain, finish a marathon, or shoot par golf. Hopefully, by the time we are adults, we have learned that lesson.

In business, the same lesson applies: managers and owners should never confuse efforts with results. Some employees can deliver outstanding results with seemingly little effort. They work a normal day and their desks are never cluttered, they take long lunch hours and rarely seem harried. Sometimes they come up with a single good idea that provides great insights leading to improved profits. Other employees are always busy, working long hours, their desks swamped with piles of paper. Yet, sometimes the results don’t relate to the effort. In business, it is results that count the most – not effort.

The same is true in the world of investing – we cannot spend efforts, only results. The basic premise of active management is that through diligence and hard work, security analysts can identify and purchase stocks that are undervalued and thus outperform the market. Unfortunately, whether an investor is flying solo or working with an “expert,” evidence is overwhelming that after costs he or she is unlikely to outperform proper benchmarks.

In contrast, passive investors build a portfolio that reflects their unique ability, willingness and need to take risk. They learn the importance of lower costs, tax efficiency, broad global diversification and the earning of market rates of return.

Consider the story of one investor, a young doctor who in 1998 began to concentrate his efforts on actively managing his portfolio. He had been in practice a few years and had a wife, a young child and one more child on the way. At the height of the dot.com era, many of his friends had generated large profits from trading stocks.

After putting in a long day at the office he would come home, not to his wife, but to his computer and the Internet. He spent hours studying charts and investment reports. He was caught up in the excitement of a bull market, a technology revolution that was changing the world, access to information that the Internet provided and the hype surrounding the success of day traders. The expansion of the coverage of financial markets by the financial media helped fuel his interest in active management and the “take control of your portfolio” mentality. Within just a few months, he had turned his small initial investment into about $100,000.

Unfortunately, his wife no longer saw her husband and his child no longer had a father; the doctor was now “married” to his computer and his investments. His wife began to seriously question their marriage. Luckily, he lost all his profits within a few months when the tech bubble burst.

Fortunately, the doctor recognized that he was not paying attention to the most important part of his life – his family. He also realized his original gains were a result of luck, similar to a hot hand at the craps table. Recognizing his error he then designed a portfolio of index funds and swore off active investing.

The historical evidence is that those who engage in active investing trade off the slim hope of outperformance for the high likelihood of underperformance. And, as the above story demonstrates, even if you are among the few who manage to outperform, the cost may have been that you lost a far more important game: the game of life. That is why passive management of your financial assets is the winner’s game in life as well as investing.

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Bill Bender, CPA, is a principal of Mason Road Wealth Advisors representing the well-respected Dimensional 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.