

The Financial Navigator – October Newsletter

Stock markets around the world rallied strongly in the 3rd quarter. Markets in countries with mammoth financial issues were up across the board: Greece up 21%, Portugal up 13%, and Spain up 11%. Egypt, in the midst of post Arab Spring political upheaval, led all markets with a 25% increase in its stock market. In our Quarterly Market Review we summarize investment returns around the world, to access the full report in Adobe please go to following link: www.azimuthplanning.com/newsletters.html , and click on Investment Market Review for 3rd Quarter, download pdf.

Below we include two related articles, ***The Top Ten Money Excuses***, and ***Another Wall of Worry***, which discuss the many mistakes investors make with their money, especially in making investment decisions based on their interpretation of current events. Reading through these might serve to give you pause before you make the next dramatic change in your investment portfolio based on the latest election predictions, or CNBC headline.

Please feel free to forward this newsletter to any individuals that you think might be interested or call if you have questions on the information provided.

Sincerely,

Bill Simpson, CFP®, MBA
Azimuth Financial Planning, LLC
(603) 373-8793
bsimpson@azimuthplanning.com
www.azimuthplanning.com

The Top Ten Money Excuses

Jim Parker, "Outside the Flags", Vice President-Dimensional Fund Advisors.

Human beings have an astounding facility for self-deception when it comes to our own money. We tend to rationalize our own fears. So instead of just recognizing how we feel and reflecting on the thoughts that creates, we cut out the middle man and construct the façade of a logical-sounding argument over a vague feeling. These arguments are often elaborate, short-term excuses that we use to justify behavior that runs counter to our own long-term interests.

Here are ten of these excuses:

- 1) "I just want to wait till things become clearer." - It's understandable to feel unnerved by volatile markets. But waiting for volatility to "clear" before investing often results in missing the return that can accompany the risk.
- 2) "I just can't take the risk anymore." - By focusing exclusively on the risk of losing money and paying a premium for safety, we can end up with insufficient funds for retirement. Avoiding risk can also mean missing an upside.

- 3) "I want to live today. Tomorrow can look after itself." - Often used to justify a reckless purchase, it's not either-or. You can live today and mind your savings. You just need to keep to your budget.
- 4) "I don't care about capital gain. I just need the income." - Income is fine. But making income your sole focus can lead you down a dangerous road. Just ask anyone who recently invested in collateralized debt obligations.
- 5) "I want to get some of those losses back." - It's human nature to be emotionally attached to past bets, even losing ones. But, as the song says, you have to know when to fold 'em.
- 6) "But this stock/fund/strategy has been good to me." - We all have a tendency to hold on to winners too long. But without disciplined rebalancing, your portfolio can end up carrying much more risk than you bargained for.
- 7) "But the newspaper said..." - Investing by the headlines is like dressing based on yesterday's weather report. The news might be accurate, but the market usually has reacted already and moved on to worrying about something else.
- 8) "The guy at the bar/my uncle/my boss told me..." - The world is full of experts, many who recycle stuff they've heard elsewhere. But even if their tips are right, this kind of advice rarely takes your circumstances into account.
- 9) "I just want certainty." - Wanting confidence in your investments is fine. But certainty? You can spend a lot of money trying to insure yourself against every possible outcome. While it cannot guard against every risk or possible outcome, it's cheaper to diversify your investments.
- 10) "I'm too busy to think about this." - We often try to control things we can't change—like market and media noise—and neglect areas where our actions can make a difference—like the costs of investments. That's worth the effort.

Given how easy it is to pull the wool over our own eyes, it can pay to seek independent advice from someone who understands your needs and circumstances and who holds you to the promises you made to yourself in your most lucid moments.

Call it the "no more excuses" strategy.

Another Wall of Worry

Weston Wellington, "Down to the Wire", Vice President-Dimensional Fund Advisors.

Stock prices rallied sharply around the world in the third quarter, with forty-two out of forty-five countries tracked by MSCI showing positive returns in US dollar terms. Total return exceeded 10% in nineteen different markets, while Ireland, Japan, and Morocco registered minor losses. For the twelve-month period ending September 30, 2012, forty markets had positive returns, with six countries—including the US—delivering a total return in excess of 30%, according to MSCI.

Investors have been confronted with a steady drumbeat of discouraging news over the past year—a feeble economic recovery here and abroad, staggering budget deficits with no solution in sight, the prospect of a Eurozone breakup, an acrimonious presidential election campaign, banking scandals, and a punishing drought across the US. Considering all the uncertainty, it's not difficult to explain why mutual fund investors have generally favored fixed income strategies rather than equities over this past twelve-month period.

Many investors are easily persuaded that successful investing requires constant attention to current events and frequent adjustment of their equity exposure. The news excerpts below represent just a small sample of the issues investors might have dwelled on. We suspect that many investors not only failed to achieve their respective market rate of return over the past twelve months but would be surprised to learn how well stock prices have done in many markets over that period.

- "Unless politicians act more boldly, the world economy will keep heading toward a black hole... At a time of enormous problems, the politicians seem Lilliputian. That's the real reason to be afraid." - "The World Economy: Be Afraid," *Economist*, October 1, 2011.
- "Investors also are nervous because October historically has been one of the more volatile months for stocks." - E.S. Browning. "Market Nears Bear Territory," *Wall Street Journal*, October 4, 2011.
- "The Dow Jones Industrial Average turned in its worst Thanksgiving-week performance since markets began to observe the holiday in 1942." - Steven Russolillo. "Investors Go Shopping—Just Not for Stocks," *Wall Street Journal*, November 26, 2011.
- "It is hard to avoid the conclusion that stock prices are levitating at over-inflated values, thanks to the herd-like behavior and collective fear of investment institutions." - *Financial Times*, December 30, 2011.
- "An escalation of the crisis would spare no one. Developed and developing country growth rates could fall by as much or more than in 2008-09." - Quotation attributed to Andrew Burns, head of macroeconomics, World Bank. Chris Giles. "World Bank Warns on the Risk of Global Economic Meltdown," *Financial Times*, January 18, 2012.
- "This may be the unhappiest bull market ever. We love to hate it, but that may be just egging it on." - Tom Petruno. "The Unhappiest Bull Market Ever," *Los Angeles Times*, February 12, 2012.
- "US companies are more uncertain about the future than at any point since the financial crisis, with just one in five of the biggest corporations making any predictions as they published quarterly results." - Ajay Makan. "Doubt Haunts US Company Results," *Financial Times*, February 21, 2012.
- "For nearly a decade, it turns out, the most accurate forecasts have come from the fringe. So it's upsetting to learn that many of these Cassandras now believe, for different reasons, that we are on the brink of another catastrophe that may be far worse." - Adam Davidson. "Sorry to Break It to You," *New York Times*, February 5, 2012.
- "No one sees a growth rate fast enough for the American economy to return to full employment any time soon." - Joseph Stiglitz, Nobel laureate 2001. "The American Labour Market Remains a Shambles," *Financial Times*, March 13, 2012.
- "We think that most of the US market is just not worth investing in... And it's our belief that profitability will have to come down and the market isn't priced for it." - Quotation attributed to Ben Inker, head of asset-allocation group, Grantham, Mayo, Van Otterloo. Jonathan Cheng. "Two Pros Weigh In on US Stocks," *Wall Street Journal*, April 2, 2012.

- "Stocks have not been so far out of favor for half a century. Many declare the 'cult of the equity' dead." - John Authers and Kate Burgess. "Out of Stock," Financial Times, May 24, 2012.
- "The US economy is continuing to lose momentum just as global events that could derail the recovery gather steam... The downshift couldn't come at a worse time. Experts warn that a breakup of the euro zone could spark the worst credit freeze since the collapse of Lehman Brothers in 2008." - Ben Casselmann and Phil Izzo. "Recovery Slows as Global Risks Rise," Wall Street Journal, June 16, 2012.
- "'Dr. Doom', Nouriel Roubini, says the 'perfect storm' scenario he forecast for the global economy earlier this year is unfolding right now as growth slows in the US, Europe, as well as China." - Ansuya Harjani. "Roubini: My 'Perfect Storm' Is Unfolding Now," CNBC, July 9, 2012.
- "Bill Gross, co-founder and co-chief investment officer of Pacific Investment Management Co., says stock investors should rethink the age-old investing mantra of buying and holding stocks for the long run... Stocks, he says, operate much like a Ponzi scheme, showing returns that have no real bearing on reality." - Steven Russolillo and Kirsten Grind. "Bill Gross: Stocks Are Dead and Operate Like a Ponzi Scheme," Wall Street Journal, August 1, 2012.