The Financial Navigator – Spring Newsletter

Stock markets around the world continued to march upward in the 1st quarter of 2013 as it was a good one for US stocks, but more mixed for foreign stocks. Developed markets were mostly positive, with lower returns than in the US while emerging markets were slightly negative overall. The one consistent characteristic was that small cap stocks outperformed large cap stocks pretty much everywhere. In the US, small cap stocks were up about 12.4%, compared to 11% for large cap stocks. In other developed countries, the small cap premium also was positive as small cap stocks were up about 7.2%, while large cap stocks were up about 4.7%. 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 1st Quarter and just download the pdf.

In addition, below our guest writer, Jim Parker of Dimensional Fund Advisors gives his views of stock market timing based on recent experience, and suggest that perhaps one should ignore the financial advice of journalist, bank investment strategist, and financial newsletters. 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

Running to Stand Still

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

Trying to correctly time your entry point to the market is never easy. Just ask the experts. In early February, strategists at a global investment bank were becoming alarmed at political events in Europe, the sequestration “crisis” in the US Congress, and what they saw as an unseemly rush into equities. The word went out to their clients to put a tactical alert on stock investing for the next one to six months.

A month later, however, the bank strategists decided to reverse course[1]. The problems in Europe, they now discerned, were not systemic, and the likelihood was that continuing easy monetary policy would support investor sentiment globally. As a result, the experts told clients to cautiously re-enter the market over a number of months.

That’s a shame for the clients, because at time of writing, the global stock market was up by 8.6% in US dollar terms this calendar year. The US S&P 500 was up 10.7%, the British market up 9.9%, and Australia’s market up 10.7% in local currency terms.

The investment bank was not alone in changing its view. In December 2011, the veteran US newsletter writer Richard Russell, author of the Dow Theory Letters, told his clients in unequivocal terms to “get out of stocks.” “I believe we’re going to see a brutal stock market that will shock the Fed and the bulls and the public—and all who insist on remaining in this bear market,” he said.[2] But 15 months later, Russell has changed his tune, telling his clients to buy stocks after a rally that has taken the broad US market to more than double the levels prevailing at its bottom in March 2009. “Yes, I know that this market is uncorrected during its long rise from the 2009 low, and I know that there are risks in buying an uncorrected advance that is becoming uncomfortably long in the tooth, but my suggestion is that my subscribers should take a chance (after all, Columbus took a chance),” Russell said in March 2013. [3]

Providing reliable investment advice based on macro-economic, technical, and political news is a tough gig. Having once worked for a newspaper, this writer knows well the dangers of splashing a front page story about markets that events overtake. After a bleak session on Wall Street one Thursday, the Australian paper I worked on covered Friday’s local session and then went forward in the Saturday edition with a doom-laden headline, trusting that US markets would stay down overnight. Unfortunately, for us at least, Wall Street bounced back on Friday, recovering all of the previous day’s losses and more. Our Saturday splash, along the lines of “No Respite from the Bears,” now looked a trifle silly, if not plain wrong.

For the everyday investor, the lesson is that the closer you are to media and market noise, the harder it is for you to pay attention to the bigger picture. Markets are moving constantly as news and information is built into prices. Sentiment is buffeted one way, then the other. Millions of participants make buy and sell decisions based on news or their individual requirements.

The job of media and market analysts frequently boils down to creating plausible narratives around disconnected events so that it all appears seamless. The next day, you start all over again; as a broker or a journalist, whose horizons are in minutes, this approach to markets makes sense. But for investors with long-term horizons, second- and third-guessing money decisions based on the news of the day is unlikely to deliver sound results. A better approach is to work with a trusted advisor on building a diversified portfolio of assets tailored for your needs and risk appetite. The portfolio is rebalanced regularly to match your requirements, not according to what is happening in the markets.

Tactical asset allocation can sound tempting, but there is always a risk that the news will overtake you. Then you are left having to change everything all over again.

As a wise man once said, running inside a moving bus won’t get you to your destination any quicker.

1. “Credit Suisse Reverses Cautious Stand on Equities,” Reuters, March 12, 2013.
2. “Richard Russell: Get Out of Stocks,” Business Insider, December 15, 2011.
3. “Another Bear Bites the Dust,” Wall Street Journal, March 13, 2013.