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The Successful Investor's Cardinal Rule: Stick to Your Investment Strategy

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Stick to your investment strategy. As easy as it may sound, it seems to be surprisingly hard to do. The difficulty may come into play because most investors don't have a strategy or they have a poorly conceived idea of what their strategy is. Some even feel like a defined strategy prevents them from capitalizing on some opportunistic nimbleness.

Whatever the reason might be to cause an investor to deviate from a plan, it's not an uncommon practice, and the temptation to do so is frequent.

To avoid violating the cardinal rule of investing before you even get started, it's imperative to understand what an investment strategy is and how to put a good one in place.

Your investment strategy is, or should be, a written plan that details all of the important factors that dictate how you will invest for at least the next five to seven years. In his Saturday Night live skits that mercilessly roasted George W. Bush, Will Ferrell liked to talk about "stra-tee-ga-ree." He may have butchered the word, but he did seem to suggest that the former president had an understanding of its meaning. Strategy is a long-term planning policy designed to be implemented to achieve an overall goal.
Military or political strategists don't modify their strategic plans indiscriminately in reaction to what their opponents do. They understand that a good strategic plan allows for some tactical maneuvering so necessary modifications can be made when conditions change.

Your investment strategy needs to evaluate certain criteria such as: a return requirement, your risk tolerance, the amount of time you have to invest, any income needs you have that cause you to draw money from your portfolio, major purchases you have planned, your tax bracket and any other unique characteristics that you may have as an investor that could cause you to include or exclude certain investments.

Once these items have been thoroughly studied, then you are able to establish the core of your investment strategy which is your long-term allocations to stocks and bonds.

Factors To Consider in Your Investment Strategy
Return Requirement
Risk Tolerance
Time Horizon
Income Needs
Capital Expenditures
Tax Constraints
Unique Circumstances

Let's say we have a married couple that is in their mid-forties and they desire $120K in annual income at their planned retirement age of 65. Based on how much they have saved already and how much they are able to save annually, we calculate that they need to earn 7.5% on their investments for the next 20 years. They have an above average attitude for risk and they don't need to draw any money from their long term retirement funds because they have segregated college savings into a separate bucket.

Based on all of the information we have collected we determine that the correct investment strategy for our couple is an asset allocation of 65% to stocks and 35% to bonds, with the latitude to increase or decrease the long term allocation by as much as 7.5% to either stocks or bonds depending upon economic or market conditions that may create the desire for more or less portfolio risk.

So this becomes the long-term blueprint for the investors because it matches the level of risk they can tolerate while allowing for some adjustments and it gives them the greatest potential to achieve their financial goal.

See "Honest" page 2

Honest Evaluation Establishes Good Strategy

Continued from Page 1

Keeping your eye on your goal is critical. Without a well-defined goal you become susceptible to inventing new goals as you go along. If markets seem risky to you because their prices have gone up too much, or some political changes have taken place that create worry or opportunity, then a good plan allows you to reasonably modify.

What the plan doesn't allow for is to indulge a speculative curiosity to dramatically switch investments because you simply want to make more or lose less money.

If you've done an honest evaluation of your risk appetite and return requirement, then the amount of money you need to make and the amount you're willing and able to lose are established facts embedded within your strategy.

If you are being tempted to drift from your strategy then you may have the wrong strategy or you need to remind yourself of the strategy you have in place and stick to it. When investors deviate from strategies the final outcomes are usually less than ideal.

Market Snapshot: Tariff Worries & Federal Reserve Action Causes Volatility

By: Michael Alexenko, CFA

There is a chart I've been using for my recent portfolio reviews with clients that compares the amount of volatility in the market in 2018 vs. 2017. There's a stark contrast and it displays the commotion we have seen caused by many days of more than 1% positive or negative swings in the S&P 500. And we have little to show for the risk we've been enduring; YTD the S&P is higher by about 2.25%. Domestic diversification has been helpful but international less so. Mid and small U.S. companies are performing well, but international developed and emerging markets are in the red. Commodities are a leading category which you might have guessed by what you've seen at the gas pump. The tariff threats that appear to be becoming a reality are not viewed favorably because of the potential damage they can do if trade wars ensue which can harm beneficial international commerce. The Federal Reserve is no longer a tailwind for the markets, instead it has become an obstacle. Money printing has turned into money shrinking with not only announced interest rate increases but the Fed's balance sheet reduction, which is likely an even greater pressure to force rising interest rates. The S&P 500 delivered nearly 22% last year, but this year the gains are more likely to be in the single digits.