

Carmel Valley News / Del Mar Village Voice December 2004

An Investing Wish List

By Terry Green, CFP[®], AIF[®]

Every year we make a “wish list” of items we’d like for Christmas. Depending on how good we’ve been, we may ask for all sorts of things like jewelry, TVs, clothes, and even cars. You may know what others are asking for too, but have you ever wondered what an industry like Wall Street puts on their wish list?

Wall Street only wants one thing – for investors to keep doing what they’ve been doing. They would love for you to keep working with their product-pushing salespeople, trading their “recommended” stocks, and buying expensive mutual funds. Wall Street just makes too much money in the status quo. They haven’t exactly been a model citizen though. In fact, they have been quite naughty. Scandals, improper disclosures, fines, cover-ups, and suspensions headline the behavior on Wall Street. Certainly, they are not deserving of any gifts.

As the investment community let’s avoid giving Wall Street what they want this coming year. Show them that we do not have to put up with their lies, conflicts of interest, and expensive so-called advice. There are better ways to invest. The following is an overview of how to beat Wall Street at its own game. I call it my “wish list for the investment community”.

- I want to pay as little as possible. There are thousands of mutual funds out there. Why I should I pay a commission to get into one when there are so many no-load funds. As far as buying and selling stocks are concerned, I want to pay under \$20 for a trade, not several hundred dollars.
- I want flexibility. I don’t want to buy proprietary products. I don’t want anything with a surrender charge either. I want to be able to access my money if needed.
- I want low cost. Mutual fund expense ratios should definitely be under 1.0%, but preferably under 0.5%. The lower my cost, the better chance I have of achieving greater returns.
- I want guarantees. Actually, no I don’t. Guarantees come at a price. If I want complete safety then I have to accept the low returns that safety delivers. But even that isn’t as safe as it appears. Over time I may be losing purchasing power due to inflation. In order to combat inflation and get higher returns, I know I must take some risk. So I want risk, but just enough to get me to my goals.
- I want stability. Having a lot of positions does not necessarily mean I’m diversified. My portfolio holdings need to have low correlations to each other.

That way when some positions are going down, others are going up. No matter which way the market is moving, I'll have a smoother ride. That is effective diversification.

- I want consistency. If I need to expose my portfolio to different parts of the market to create stability, I cannot afford "style drift". Style drift is when a mutual fund begins as a certain style but the manager does not maintain that style (Small Value becomes Mid-Growth). This can cause a portfolio to become over- or under-weight in different asset classes. My investments need more discipline.
- I want relatively known performance. If an index, such as the S&P 500, returns 10% next year, I want to know that that part of my portfolio achieved around the same number. Investing is already risky, I don't need the uncertainty actively-managed mutual funds bring to the table. More often than not, these managers under-perform their benchmark index.

I guess you could sum it up by saying I want the investment community to buy and hold broadly diversified portfolios made up of no-load, low-cost index funds, and occasionally rebalance them. This is the key to successful investing. Funny, I never hear Wall Street tout this approach. Maybe they are just too busy thinking of new scams to keep Attorney General Eliot Spitzer busy.

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