"The existence of a written and agreed upon policy encourages all parties to maintain their focus on the long-term

— ***IFA's Investment Policy Statement***

A Special Message From IFA

Aug 5, 2011 | by IFA

The stock market has delivered a very volatile week to investors, perhaps striking a nerve not felt since 2008. Thursday's 500+ point drop in the Dow certainly caused many investors to recall the sickening downturn of what some call "The Great Recession." Certainly, investors feel somewhat daunted as this week wraps up the worst week in the stock market since 2008.

In times of increased volatility such as we have experienced, it's important to revisit five important lessons that are the underpinning of a successful investment strategy.

1. Markets are Efficient: We may not like the market's reaction to the news that has dragged it down in the last week, but the market is doing its job. Willing buyers and willing sellers go to the market to agree upon a price for each security. Each price reflects all known information. It is important to understand this one simple point because if you decided to buy or sell now based on what has happened—don't bother, it's already in the price.

2. Market Timing is Speculation: Investors who take action based on what they think will happen next are merely speculating or gambling on a future outcome. Louis Bachelier admonished back in 1900 that the expected return on speculation is zero. Even worse, when costs are considered, the expected return on speculation turns negative. As Charles Ellis tells us, "Market timing is a wicked idea. Don't try it –ever."

3. Save Yourself from Yourself: Legendary investor Benjamin Graham tells us: “The investor’s chief problem - and even his worst enemy - is likely to be himself.” How can investors avoid acting as their own worst enemy? In The Little Book of Behavioral Investing, James Montier tells us, “Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing.” In other words, realize that the long-term expected return of your investment portfolio has not changed in the wake of the current volatility, so look away. Sounds too simple? Yes, it is simple advice, but it is not always easy to follow. The media will do nothing to assuage the panic or fear. In fact, they will beat the drum because it keeps people tuned in. Their advertisers pay for eyeballs on the screen, and they’ll do whatever it takes to get them and keep them there. Turn off the TV; step away from the computer; go for a walk, instead. You’ll be glad you did.

4. Remember the Bad Times: Sounds odd, doesn’t it? Who wants to recall the angst of 2008 and early 2009? It was painful. The important thing is that those who held on came through far better than those who panicked and fled the markets. The market always carries a positive expected return. You don’t always get it, but it is always there. You cannot obtain the positive expected outcome of the market unless you are in the market—buying, holding, bearing and rebalancing risk. We know the drill, we have suffered extreme volatility in the past, and we have endured.

5. Remember Your Time Horizon: The best time to be in the market is when you have the money and the best time to be out of the market is when you need the money. If you need the money right now, the stock market is not the right place for you. But, if you have a time horizon of four or more years, you can withstand some volatility to increase your risk-adjusted returns. Spend some time in Step 4 and Step 9. Reacquaint yourself with the data showing the pitfalls of market timing. Remember when markets have shuddered in the past, Capitalism has been extremely resilient over time. Most importantly, make sure you are investing in line with your risk capacity. If your risk capacity is still where it should be, the hard work is over; you have earned the right to simply invest and relax.

If you would like to review any of these important lessons with your IFA advisor, please call 888-643-3133. We are always here for you.

It is IFA’s privilege to share this information with you. Each of our investment professionals welcomes the opportunity to assist you in your quest for risk-appropriate, low-cost returns. To learn more, please call 888-643-3133 or visit ifa.com.

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