

Quarterly Review

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by Jack P. Cannata, CFP®, CPA

The mantra of buy low, sell high is so ingrained into the investment lexicon as to generate great yawns of interest. My question is, if buy low, sell high is so widely known an investment strategy then why is it so seldom followed, especially by individual investors? A well-known Dalbor, Inc. study, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior, indicates that the average individual investor earned a paltry 2.5% return each year for the 20 year period 1994 through 2013. Over that same period stocks, as measured by the S&P 500 Index increased 9.2% per annum and bonds were up 5.7% annually (as measured by the Barclays Capital U.S. Aggregate Index). Even the sales price of existing single-family homes increased 3.1% per year from 1994 through 2013, (per J.P. Morgan Asset Management). Based on this data, many investors follow a different, very destructive strategy of sell low and buy high!

One tactic that we employ is counter-market rebalancing. This strategy involves creating an asset allocation model which seeks to find uncorrelated or minimally correlated return streams and periodically rebalancing by selling the best performing asset categories and buying the worst performing. Lately, large-cap domestic stocks have been among the best performing sectors and international bonds, commodities and natural resource stocks among the worst. Historically, counter-market rebalancing works best in turbulent markets.

The longer that I am in this business, the more I seem to understand basic tenets of investing, like buy low, sell high, and how easily we can fall into what can best be described as financially destructive behavior.

As always we thank you for your business and for your continued trust.

Past performance is no guarantee of future results. All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses.

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