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April 2014

"Never read predictions, especially about the future"*—Casey Stengel, legendary Mets manager*

To our clients and friends:

The above quote has erroneously been attributed to Yogi Berra over the years. It certainly sounds like something he would say. But it was Casey Stengel, another baseball great, who actually deserves the credit.

Predictions have always been the bane of investors. Legendary stock speculator Jesse Livermore, a famous stock trader during the early 1900's once said "I never try to predict or anticipate. I only try to react to what the market is telling me by its behavior."

And then there is William O'Neil, author of the classic book, "*How to Make Money in Stocks"*. O'Neil is what is known as a "market technician", which means he looks at price and volume, market breadth and other technical indicators. He makes it clear in his writings that he does ***not*** believe in crystal balls, personal opinions or predictions—they are of no use.

In his book, O'Neil says: "You do not need to know what the market is *going to do*! All you need to know is what the market *has actually done*! This is the key! Think about it for a minute. There is a fortune in this paragraph. "

"Flat-out Wrong" Predictions

Year 2013 was a perfect example of predictions gone awry. Here is a quote from an article published on January 1, 2013 by CNN Money and Investing columnist Hibah Yousuf: "*According to more than 30 investment strategists and money managers surveyed by CNN Money, the S&P 500 index should finish 2013….up 4.5% for the year. While that's not anything to scoff at, it's a far cry from last year's (2012) 13% increase."*

The S&P 500 actually gained more than six times the average 2013 prediction!

In addition, gold lost about a quarter of its value in 2013. Did you notice the number of gold commercials on TV last year? Investors who made bets on precious metals were crushed. Some favored high-grade municipal bonds which lost money and TIPS which lost a lot of money. Investing in emerging markets was also hazardous.

The moral of the story: Yearly forecasts even from the "experts" should not be taken seriously. They should be read for entertainment purposes only.

Market Noise

We repeatedly advise against watching CNBC—we can be quite adamant about it, in fact. The vast majority of "talking heads" and the constant chatter about the various financial markets is basically just random noise and should be treated as such.

You should consider the "talking heads" to be akin to a pack of barking dogs. They are meant to be ignored, rather than inciting a call to action. They like throwing around terms such as being "in" or "out" of the market and "taking money off the table".

In our opinion, your hard-earned investment dollars should be considered ***long-term*** in nature, to be spent later on things like retirement, hobbies, college tuition, charitable giving, or a legacy for your children or grandchildren.

Remember this lesson the next time you hear some bold prediction from yet another talking head on Wall Street. Don't let it derail your well-laid investment plans.

Our Approach

Our policy is to refrain from even *trying* to make a stab at annual forecasts. Why?—because it is often an exercise in futility. No one—not even the most knowledgeable of stock market participants—really knows the value that investors will place on a particular investment (or the market as a whole) twelve months into the future. We try and approach the market one day at a time. We realize that annual forecasts can be incredibly misleading—just witness 2013.

We remain disciplined and cautious in our approach. Despite all the noise, we also remain confident. We do so by employing a careful focus on asset allocation and on correlations between investments. This approach allows us to minimize risk, while maximizing returns (and also allow for a good night's sleep).

As William O'Neil would say, investing based upon *personal opinion* or the *prediction* of what the market or a certain stock will do can be a risky endeavor. It is an implicit acknowledgment that one knows more than the market itself.

An Advisor's True Value

So what role can, or should, the advisor play? That which makes an advisor truly valuable is *not their predictions* but their *strategies for dealing with an uncertain future*. One of the most important lessons I've learned about investing is that on any given day, the noise of the market is far more powerful than any legitimate "signal". It's very easy to react to that noise as though it has meaning. And, therefore, it's very easy to take action (buy or sell) when really, no action is necessary.

The most successful investors (and advisors) don't even bother with making predictions. Instead, they have the discipline to stick with their long-standing system through thick and thin. They realize that knee-jerk reactions are deeply unwise.

The goal of a good advisor should be to become a first-responder to a client's portfolio. First-responders are trained and prepared. They see through the smoke and noise and know when, how — and how much — to act. A good advisor is armed with that level of confidence. If the advisor decides to trade more — or not — it will be on his or her own terms and not due to Pavlovian triggers.

Two of the most significant behavioral factors that derail investor performance are: 1) the allure of market-timing; and 2) the temptation to chase performance. Advisers acting as behavioral coaches can function as emotional circuit breakers by circumventing clients' tendencies to chase returns or run for cover in emotionally charged markets.

The most significant opportunities for aiding clients and for providing true value occur during periods of market distress, on the one hand, or euphoria on the other. These are the conditions which might tempt clients to change their investment strategies.

A truly holistic advisor is not concerned simply with trading and achieving the highest market returns. Instead, they remain focused on the bigger picture and more important "life" issues. Advisors who take a comprehensive approach to managing wealth focus on coaching their clients and on helping create the kind of life the client wants to lead.

Trading, Market Timing and Noise—Lessons to be Learned

We all know there is a never-ending stream of negative news in the media. Economic and geopolitical events appear chaotic and unnerving at times. Trying to decide when it's the right time to move in or out of the market is simply a waste of time. It is also risky. We've all read the statistics showing that being out of the market during the top 10 or 20 days during a particular market cycle will seriously diminish returns.

It is better if you can be satisfied knowing that you've thought through your allocations well. If you can avoid tinkering with them on a regular basis, you're less likely to risk missing out on major market moves. History has shown this time and again.

Many novice or inexperienced investors rely on a sense of "all or nothing" market timing. The same is true of fearful investors. This also includes those people still on the sidelines since the 2008-2009 bear market, hiding in CDs or cash reserves out of fear.

We will not make any drastic "all or nothing" changes. Why? Because we cannot predict the future! May we substitute one or two investments for others inside of our overall general allocation? Perhaps. But will we sell everything, and go to cash with our head in the sand? Of course not! That type of behavior is to be avoided.

Contrarian Investing—Putting Aside Emotions

There is a saying in the industry, which is "The best trade is the hard trade". This has been said many times in different ways. Warren Buffett has rephrased it as: "Sell when others are buying and buy when others are selling". Or "buy when fear is rampant".

Another famous version (one not attributable to Buffett, though) is to "Buy when blood is running in the streets".

On December 15, 2013, Market Watch columnist Thomas H. Kee stated this principle very simply, when he said:

> "It pays to buy when everyone else is selling, and sell when everyone else is buying, but that is never the popular thing to do. In the stock market however, the best investment decisions rarely are the most popular at the time they are made; only after the fact are they actually appreciated".

At our firm, we are guided first and foremost by how our investment percentages look relative to our targeted allocations. If we are higher than desirable in a certain asset class, we will sell some of that asset class. If we are lower, we would expect to buy more of that asset class. This is a largely unemotional process and, for that reason, it works.

Conclusion

The great poker champion Chris Ferguson once said that the results of a *hand* of poker are 99% luck and 1% skill, but the results of a poker *career* are 99% skill and 1% luck.

And the same is true of investing: the longer the time frame, the more the *result* of an investment decision is due to skill (or lack thereof) and the less it is due to market noise. Do your research, make your investments and put on some noise-cancelling headphones.

Sincerely,

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Past performance is no guarantee of future results
****Nothing contained in this quarterly newsletter should be construed as investment advice****