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"Genius is nothing but a greater aptitude for patience" —*Benjamin Franklin*

To our clients and friends:

During 2015, the financial world lost three of its greatest investment minds. The three were Irving Kahn (age 109), Charles Allmon (age 94) and Richard Russell (age 91).

If you don't read and study finance every day, it's unlikely you'll recognize these names. But all three were highly successful, and were considered geniuses in their field.

Kahn worked in his NYC office until late 2014. He was interviewed by the London paper, *The Guardian,* as well as *The New York Times* just before his death. He explained that in 2014 he still used the same approach that he'd used to purchase his very first stock in June 1929 at age 24. He described his secret as "always insuring there was a 'margin of safety' in his investing". He was a value investor focused on managing risk.

Kahn emphasized that the teachings of Benjamin Graham—the famed value investor—always offered him a critical reminder of assessing portfolio risk. Kahn said: "If the market is overpriced, an investor must be willing to wait—you must be patient."

The Wisdom of Experience

For almost 50 years, Charles Allmon edited the *Growth Stock Investor* newsletter. He was a mentor and teacher to many of today's greatest investment minds. Richard Russell first published his *Dow Theory* newsletter beginning in 1958—yes, almost 60 years ago—and wrote his last letter on November 16, five days before his death.

Kahn, Allmon and Russell all benefited from possessing great wisdom which came from nearly 300 years of combined life experience. But they also possessed another common trait—patience. They were all conservative investors with an eye towards risk.

The Importance of Patience

Recently a 23-year old young man asked my advice about an issue in his financial future. He explained to me that he intended to retire at the age of 35. Between now and then (about 11 ½ years) he expects that he will make lots of money and be set for life.

My first reaction was amazement at his level of ambition. After all, members of Generation Y (a/k/a Millennial) are often labeled as lazy, or "slackers". Not this young man! He is already making loads of money in sales and intends to continue the same.

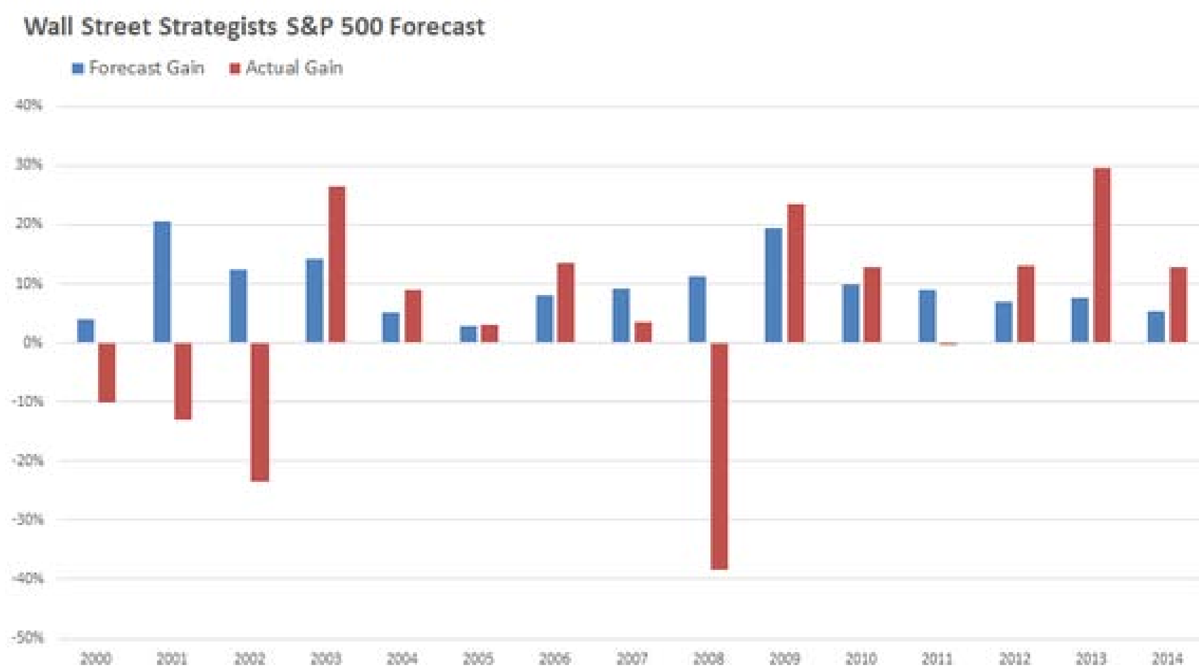
While composing this quarter's newsletter, I couldn't help but draw a comparison between the youthful dreams of this young man and the ingrained wisdom of the three icons that recently passed on. It would be interesting to know if any of the three had planned early in life to retire at age 35. Allmon worked until age 90; the other two worked until their deaths at age 109 and 91—talk about loving what you do!

Back to the young man: Without quashing his enthusiasm and spirit, I gently reminded him of the story of the hare and the tortoise, and that he might best think in terms of the tortoise when it came to investing. I also recited the old adage of "getting rich slowly" (as opposed to fast riches) and how patience might serve him well over time.

<u>Contrarian Investing and the Road Ahead</u>

Speaking of wisdom, it's that time of year when forecasters at the big name brokerage houses publish their market predictions for the coming year. The good news: It's unanimous! Everything will be coming up roses in 2016, at least according to the 10 notable strategists interviewed by Barron's magazine. But before you get too excited, please keep reading.

The bad news: These strategists, despite pocketing hefty salaries, are terrible at predicting the market's performance. How terrible? "Disastrously", says The Motley Fool investment website. Here is the chart the Fool published representing the past 15 years of "expert" predictions (*see my personal comments in fine print at the very bottom of the chart*).



It appears that in the past 15 years of predictions by the so-called "experts", only three years—2005, 2009 and 2010 (equal to 20% of the time) did the "expert" predictions turn out to be even within 5% of the correct percentage gain. This is why caution is warranted when listening to "expert" predictions about the market.

When looking at the chart above, the first question that comes to mind is this: What if the expert predictions for 2016 are way off again? One other observation: not a single time did the "experts" forecast a losing year. This means that investors are left to their own devices to determine whether a down year is about to unfold.

How do you protect against an unknown future? Answer: By not putting all of your investment eggs in one basket, especially from an asset allocation perspective.

Smart investors must avoid the hazard of overconfidence. It can be tempting to profess absolute conviction about a particular asset class or investment. But it's more important to remain humble about one's predictive skill. One must be conscious of risk and of becoming complacent. We should not disregard risk or pretend it doesn't exist.

Simply put, the smart investor, rather than trying to time the market and make predictions (like our "expert" strategists), will simply insure that they have a comfortable—and fully appropriate—asset allocation for their individual risk tolerance.

A Practical Solution

How is this accomplished? When looking at an investment portfolio, try and do some "what-if" exercises. What if the portfolio is heavily overweight a particular investment? What if the market were to drop 20%? What if the EU suddenly announces a breakup? What if every analyst or talking head on CNBC yells to "Sell, Sell, Sell"?

Investors should try to imagine their possible reactions to this sort of thing while they are still calm and collected. Having a well-thought-out plan can provide great reassurances. And remember that all of these questions are premised on the notion that the investor actually knows what they own in the portfolio (News Flash: that is not always the case)!

As an investor, remember to tell yourself just how long your horizon really is. Remind yourself how you successfully (or unsuccessfully) navigated the financial crisis—and that the current "crisis" is really nothing. Or that holding a basket of diversified assets over time is a proven strategy. Perhaps if you really need to, write down some logical rationales or conditions upon which you would change your allocation.

But bear in mind that the correct time to change your asset allocation is during periods of market strength, not in the face of weakness or after the market has collapsed.

Guidance and Professional Advice

A thoughtful and competent advisor will devise a multi-faceted, individualized investment portfolio for their clients.

On the one hand, it could be positioned for a low-growth, deflationary outcome, one which could conceivably protect against a significant decline in the stock market—*in other words, the portfolio might be more defensive and risk averse than normal.*

At the same time, the advisor could insure that another component of the portfolio has the potential to at least do reasonably well should the equity markets continue to march higher over the short-term, as has been the case for the past six or seven years.

Investors cannot have it both ways—they must therefore try for a little of each, and remain fully diversified. There are times when it seems more prudent and infinitely more sensible to take at least *some* defensive positions as opposed to taking undue or excessive risk.

Ultimately, one's asset allocation should be based on one's *entire* financial situation. For instance, some retired investors have a pension or other steady stream of income in addition to their investment portfolio. This allows for cash flow certainty and stability and may therefore enable the retiree to take additional risk in asset allocation.

On the other hand, a retired investor depending solely on withdrawals from an investment portfolio may not have this luxury. Retirees often need to think in terms of capital preservation. This means larger allocations to fixed income or other alternatives.

Conclusion

Author Larry Swedroe, in his book, *The Only Guide to a Winning Investment Strategy You'll Ever Need*, suggests that an asset allocation cannot be developed in isolation. One needs to thoroughly review one's financial and personal circumstances.

The investor must consider the following factors: a) the need for cash reserves, b) job stability and job correlation to the economy and the stock market, c) investment time horizon, d) insurance and estate planning, and e) outside financial resources (pensions).

Smart investors will strive to position their portfolios in a way which anticipates various outcomes (very good, very bad or something in between) in at least a reasonable sense. This means trying to minimize the risk of loss while at the same time reaching for some level of growth in the portfolio.

The moral of the story for a truly engaged financial coach/adviser is "know your client". My overriding goal is to discover everything that I can about my client's financial life in order to render the most thorough advice possible. It is only when armed with this unique, individualized knowledge that a superior financial adviser can do their best work.

Thank you for your continuing interest.

Sincerely,

Andrew J. Fama, JD, AEP, RFC, MHA, Registered Fiduciary
Principal, Fama Fiduciary Wealth LLC, Registered Investment Advisor