

Understanding Investment Portfolio Management

By:

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Successful investors share many fundamental traits that unsuccessful investors choose to neglect. Successful investors understand that following a proven system, applying sound disciplines, and avoiding the “herd mentality” are absolute necessities to creating the opportunity for consistently superior results in portfolio management. The following list outlines some of the most important fundamental understandings that successful investors share:

1. **I understand that markets fluctuate.** I know that the words “stocks” and “guarantee” rarely, if ever, belong in the same sentence. I understand that, in virtually every case, investments providing higher average, annual rates of return carry proportionately higher risks and volatility. I also understand that assets providing the highest degrees of assurances and guarantees generally carry the lowest returns.
2. **I understand that my portfolio will need regular attention and maintenance.** I understand that economic circumstances change and my situation will change over time. I know that regular reviews (no less than one and no more than four per year) are critical to the long term health of my investment portfolio.
3. **I understand that time is one of my most valuable assets.** The timeline of my goals helps to dictate the type of investments I should – and should not – consider. This timeline also helps me to decide how much risk I should reasonably accept. The closer in time I find my goals, the less risk I can wisely accept. If I’ve got years and years before I need to draw on my capital, I can reasonably accept prudent risks.
4. **I understand that past performance is no guarantee of future returns.** This is true of absolutely everything – inside the investment arena – and out.
5. **I understand that it’s not what I make, but what I keep that counts.** I expect that my financial advisor will be very knowledgeable about income tax issues. I expect to receive on-going counsel about ways to minimize the tax bite that Uncle Sam takes from all my sources of income. I know that the IRS is a partner in all of my ventures, but I expect it to be the “junior” partner.

6. **I understand that investments are neither “good” nor “bad.”** Investments are tools. They are either appropriate (useful) to my strategy or they are inappropriate (detrimental) to my cause. Hammers are great for driving nails, but pretty poor paint brushes. I understand that I need to decide what I want my investments to do for me then I can decide what tools best would get me where I want to go.
7. **I understand that my family and friends will graciously share with me their “hot” tips.** I know that this is nothing more than gambling. I know for a fact that my brother-in-law is clueless. I know that implementing a sound investment strategy and applying consistent discipline to a well diversified portfolio is a prudent approach for investors like me.
8. **I understand that my portfolio will be down at different points in time.** I understand that it is these “down times” when successful investors not only stay invested, but often add dollars to their portfolios. I understand that this may feel “backward” and uncomfortable.
9. **I understand that with dollar cost averaging (DCA), when the share price of my investments goes down, I am able to purchase more shares with the same number of dollars invested.** I understand that such a plan involves continuous investment in securities regardless of fluctuation in price levels of securities. DCA does not assure a profit and does not protect against loss.
10. **I understand that I will be disappointed at one time or another with each of my investment choices.** I know that the wisest protection I have against such disappointment is a well diversified portfolio. I appreciate that owning many different asset classes means that they tend to not all move in the same direction at the same time. All investments go through cycles; they just don't go through them with the same cycle or the same amplitude. In other words, if all of my investments always go in the same direction, when the market drops there's nothing to stop my investments from heading south.
11. **I understand that I will be tempted to chase “winners” and dump “losers”.** I understand that this approach has not produced successful results over time. I know that in doing this I am committing to buying high and selling low. I know this is the opposite of what is necessary to turn a profit in my investments. I understand that quality investment assets go through cycles. My job is to keep my portfolio “in balance” which will force me to sell high and buy low.
12. **I understand that many investments, indices, funds, etc. may and will outperform my portfolio at various points in time.** I also understand that my goal is not to earn the

highest rate of return available in the market. My goal is to produce solid returns that will allow me to reach my goals while also minimizing risk and volatility.

13. I understand that I will read, see and hear both positive and negative opinions about the investments I carry in my portfolio. I also know that my advisor has researched these recommended investments and continues to monitor them to insure they remain appropriate for me and my portfolio.
14. I understand that many times, the best thing to do is nothing. I know that no one in this world had the ability to foresee the future. All of our crystal balls are foggy; the tarot cards reveal the future to no financial professional; and tea leaves can stain your best table cloth. I know that anyone claiming to know what direction the market will take is either naïve or a big fat fibber.
15. I understand that I am a critical part of my investment team. I know that I must take responsibility for working with my advisor to produce the most satisfactory results possible. I am willing to reach out to my advisor with questions and concerns. I am willing to call or email when circumstances have changed. I am willing to learn all that I need to in order to understand my portfolio and its performance. I know that it will not happen in one day, one month, or even one year. I understand that my portfolio is critical to the financial security of me and my family. I am committed to investing the time, effort, and concern necessary to give my portfolio the greatest probability of success.

There are a few if any guarantees in investing. If you follow these principles, systems, and disciplines, your probability of success will rise significantly.