THRIVING LESSONS SERIES
PART III: COMMON PITFALLS TO AVOID

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Investors are facing historically low yields, a more fairly valued stock market that keeps pushing higher and an increase in volatility. Many are questioning whether they should continue to ride the recovery or pull off at the nearest exit. Still others who have stayed parked on the sidelines may be questioning if they can still get in. Most importantly, investors are wondering how to succeed in this environment of change and complexity.

While focus, engagement and conviction are the behaviors that will drive success, it is just as important to understand the common pitfalls that investors make and how to avoid them.

Often investors have a tendency to focus on the past, constantly looking in the rear view mirror. This often leads to missed opportunities, or worse yet, ill-timed decisions that can prove costly.

Take, for instance, investors who increased their exposure to high yield bonds in search of income during this prolonged low interest rate environment. After performing well for several years high yield bond valuations became rich in the summer of 2014. Those who assumed they would continue to generate similar returns were caught off guard by the resulting selloff. While the asset class can add value as part of a well-diversified portfolio, investors must not assume that yesterday's winners will be tomorrow's winners.

Investors should avoid following the latest trend and position their portfolio for what's ahead. Over-exposure to high yield bonds could put one's portfolio at risk as rates begin to rise. Rather, investors should thoughtfully incorporate higher yielding fixed income assets and diversify further with lower correlated investments, such as more opportunistic/flexible bond approaches, absolute return strategies, and managed futures investments.

Many investors get distracted with news of escalating geopolitical tensions, a worse-than-expected economic report or a disappointing company earnings report. While the market may react negatively to these events, resulting in perhaps volatile moves, it is more prudent to keep emotions in check and not react to the noise. Changing course in the middle of the journey can result in smaller gains or worse yet, failure to reach the destination.

Consider the growth scare during the fall of 2014 that caused the S&P 500 to decline more than 7% from its intraday high in September. As illustrated in this chart, the S&P 500 was up more than 10% after which the equity market began a multi-week decline as investors focused on negative news. If you exited the market during this volatile period, you may have realized a return in 2014 of as little as 2% depending on when you decided to sell. Investors who remained invested went on to enjoy an almost 14% return as the market recouped its losses and moved higher.

Investors who are driven by long-term goals rather than short-term emotions actually come out ahead in the long run. It's best to adhere to a well thought out investment plan you've charted with your advisor.

Most important of all, don't try and navigate this journey alone. We recognize that the next five years of this decade will be more challenging than the first. Investors will be better prepared for success if they partner with an advisor who shares their focus and helps steer the course toward their short- and long-term goals.

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