INVESTING, CAN YOU DO IT YOURSELF?

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Investors have an endless supply of investing tools, information and investment alternatives, so why not do your own investing without an advisor? The simple answer is, that with the right knowledge, you can.

CAVEAT: ***IF*** you **master the business cycle and eliminate emotion, you can be a successful investor**!

However, if you do not have the time or the inclination to master these, you lower the probability of success. This is when you should seek the help and guidance of a professional, credentialed financial advisor.

One of the fundamental factors in controlling risk and seeking competitive returns is understanding the **business cycle** and how it affects your investment strategy. This is much more than watching CNBC. It is knowing what your mix of stocks, bonds and cash should be for your particular risk tolerance and objectives.

Understanding the business cycle helps you determine which sectors you should emphasize. To do this, you need to understand two types of indicators and what these mean to your strategy:

> ***Leading indicators*** *often change prior to large economic adjustments. As such, they can be used to predict future trends. Leading indicators are derived from the stock market, manufacturing activity, inventory levels, retail sales, building permits, housing market and the level of new business startups just to name a few.*

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***Lagging indicators**, however, reflect the economy's actual historic performance. Changes to these are only identifiable after an economic trend or pattern has already been established. Lagging indicators are derived from the gross domestic product (GDP), income and wages, the unemployment rate, consumer price index (inflation), currency strength, interest rates, corporate profits, balance of trade, value of commodity substitutes compared to the U.S. dollar, just to name a few.*

Almost 30 years ago I came to this conclusion: To be the best financial advisor I could be, I had to focus on the business cycle. If you listen to the day-to-day noise you will not manage your investments, they will manage you. If you can get a handle on the aforementioned indicators, you can analyze the critical information you need to make the best decision, for your particular and individual situation.

The second major factor of investing is controlling your **emotion**. I was recently doing research and found a 2019 chart by J.P. Morgan[i] that the typical investor averaged just 2.5% [ii] over the last 20 years (06-1999 to 06-2019). In this comparison, stocks were up 6.1%[iii], bonds 5.0%[iv], gold 8.6%[v], international stocks 3.8%[vi], homes 3.4% [vii] and inflation 2.2%[viii].

These returns reflect a buy-and-hold strategy, shown by various indexes; but, not all investors buy and hold. Investors' returns are dramatically lower as they move their money in and out of investments at the wrong time as their ***emotion*** – not logic and analysis-- controls their investment decisions.

A recent Morningstar study[ix] of mutual fund investors showed they are poor market-timers because, on average over the last ten years, they lose half of a percent per year to poor timing decisions. Due to emotion, investors tend to chase performance, which leads them to buy at the top and sell at the bottom of the market cycle.

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To maximize your returns and control your risk you need to create an asset allocation strategy that is developed personally for you, then adjust that allocation according to business cycle influences.

I once had a client equate my being her financial advisor to being her “investment doctor”, as I was laying out a plan to have a healthy investment portfolio, monitoring it and making adjustments.

If you are going to be your own “investment doctor” remember the old axiom that doctors make the worst patients. If you are willing to do the homework and remove emotion, then do it yourself, but if you are not, get help by using an “investment doctor.”

If you have financial planning and investment questions, or if you have suggestions for future article topics, please free to contact Brad Olson, President of **Oak Tree Financial Services, LLC**., by phone 262-649-9202, by email brad@otfsllc.com, or by mail to 13555 Bishops Court, Suite 255, Brookfield, WI 53005.

(Note to Editors -- Disclaimer required by law)

(Word Count: 684)
Text - Current to: (08-04-2020).
References as of: (06-30-2019).

Reference End Notes:

1 Chart available on request.
2 Dalbars Average Asset Allocation Investor Return.
3 S-and-P 500 Index.
4 Barclays Us Aggregate Bond Index.
5 Spot Gold Per Ounce.
6 MSCI EAFA Index.
7 NAR home sales Index.
8 CPI – Consumer Price Index.
9 By J.P Morgan Asset Management