

LGC&D Wealth Management, LLC

Educated Investor Feature Articles: 2008, Vol. 8

All the Tea in China

Overview: Recent hot investment trends have favored markets in China and India, and given a cold shoulder to the trouble-plagued U.S. real estate market. Should investors try to capture gains and avoid losses by reallocating in response? Among our critical roles as our clients' investment advisor is to encourage them to tune out trends and focus on the long-term.

History teaches that in investing patience and fortitude — or benign neglect — are more beneficial than activity. To rephrase the familiar admonition: “Don't just do something, stand there!”

— Charles Ellis
Winning the Loser's Game

A couple of decades ago, it was Japan. Japan gave way to technological innovation and all things “www.” Before that, there was the golden age of –tronics. Even when capital markets formed back in the 1600s, among the first corporate stock offerings ever — the Dutch East India Company — was quickly all the rage.

Some things never change. These days, it seems that renewed interest in the economies of India and China have caught the attention of Wall Street, with the usual pressures to “buy now!”

A few lucky investors will no doubt have their success stories. We allow them their 15 minutes of fame, even as we advise clients to ignore any temptation to reallocate their portfolios in response.

Among our primary roles as a trusted investment advisor is to reinforce that long-term investing is not about placing bets. It's about relying on carefully managed, globally diversified portfolios to pursue long-term investment objectives while minimizing the accompanying risk. This is the game at which we want to help investors win. Often, the best way to do so is to hold firm.

Not yet convinced? Consider two additional observations.

Stay Ahead of the Game

With our approach to portfolio construction, we typically help investors spread their equity portfolio across a broad range of globally diversified markets. And we help them keep it diversified via disciplined rebalancing. Thus, if an emerging markets allocation (China, India, etc.) makes sense for an investor, he or she already is positioned to capture its gains in a goal-based, cost-effective manner. As such, passive investors who may worry that they're missing out on a hot trend can remember that, quite the opposite, they are likely already there ahead of the crowd (to the degree that it is appropriate for their individual investment objectives).

The Grass Isn't Always Greener

Last year, those interested in marketing timing were heard inquiring about investment opportunities in India and China, and eschewing holdings in the real estate asset class based on a troubled U.S. real estate market. How did such an approach fare? At the end of the first quarter for this year:

- The MSCI Emerging Markets India Index (USD) returned –27.1 percent (minus 27.1 percent).
- The MSCI Emerging Markets China Index (USD) returned –23.7 percent. (minus 23.7 percent).
- Both were down more than any broad-based asset class, in most cases by more than double.

- The only asset classes that provided positive returns were commodities, fixed income ... and real estate.

Even if the data weren't quite so conveniently supportive of our point, we would continue to counsel investors to ignore the latest stock market beauty contest and stay the course with their carefully constructed investment plan. There is simply too much academic evidence and too many clear illustrations throughout history indicating that the "sure thing" of today too often becomes tomorrow's sure example of a past investment foible.

This material is derived from sources believed to be reliable, but its accuracy and the opinions based thereon are not guaranteed. The content of this publication is for general information only and is not intended to serve as specific financial, accounting or tax advice. To be distributed only by a Registered Investment Advisor firm. Copyright © 2008, Buckingham Family of Financial Services. To unsubscribe, please reply to this email with the subject line "unsubscribe."