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Monthly Insight

Timing is Everything—In Comedy, Not the Markets

You’ve probably heard the joke: Someone asks you, “Guess what the most important thing is in comedy?” And while you’re still forming the words, “I don’t know,” they blurt out, “Timing!” And it’s true. There are some things in life—performing a musical piece, dancing with a partner, and telling a good joke being among them—where proper timing makes all the difference.

But when investors try to apply that principle to the financial markets, the result is typically everything but harmonious, well-synchronized,

or humorous. Nearly five decades of research have demonstrated that active stock-pickers cannot consistently add value. That's not to say that stock-pickers don't sometimes experience success, but statistically, we can't differentiate between skill and luck.

Indeed, these evidence-based principles led to the invention of index funds, which allow investors to “buy the market” and also directly track their funds' performance against a known benchmark. But these days, as index funds proliferate—including exchange-traded funds (ETFs), which are basically mutual funds that can be bought and sold like individual stocks—many investors seem to be trying to “time the market” using index funds. Especially as technology takes up more and more space in our lives and people are able to execute trades on their smart phones, some seem to be approaching index funds like stock pickers. In fact, according to Morningstar, a leading investment research firm, stock index funds made up 52% of the US equity fund market by the end of 2021. And in that same year, the largest S&P 500 index fund accounted for the highest average daily trade volume of all US-listed securities, at \$31 billion.

But once again, research does not bear out the effectiveness of this approach. In fact, research demonstrates that for most investors, the most effective strategy is to formulate a plan that is consistent with their long-term goals, implement the plan, and stick with it for the long haul. After all, the purpose of having an investment plan is so you can relax—so you don't look at the market all day long every day, stressing out and constantly asking yourself, “How'm I doing? How'm I doing?” Investors who are actively trading in this manner are not just potentially missing out on the expected return of the market—they're stressed out, worrying about how the news alert they just received will impact their long-term financial health and whether they can or should do anything about it.

But if market timing isn't the right approach, what kind of plan should investors make? Great question. There are a few basic principles that investors should follow as they develop their “long-haul” strategy.

1. Asset allocation. It all starts with assessing what kind of investor you are, what your goals are, and especially what type of risk you're willing

to tolerate. While there is no such thing as a risk-free investment, some types of assets are more appropriate than others for certain types of investors. Once you've established your "risk profile," you should then allocate your investments among various types of assets that correlate to that profile, distributing them among equities (stocks), fixed-income (interest-bearing debt obligations), and cash in a way that balances risk and reward appropriately for your risk tolerance.

2. Diversification. Diversification at its simplest means not putting all your eggs in one basket. Instead, you seek to spread your assets among different types of holdings, with the objective of limiting the amount of risk you are exposed to in any one type of asset. Diversification is your best friend over the long haul, because it allows you to remain invested while limiting the amount of volatility in your overall portfolio. Over time, with proper diversification, investors can capture multiple dimensions of market returns without being over-exposed to excess market volatility.

3. Rebalancing. Over time, as various sectors of the market go up and down at different times, your portfolio mix will change in composition as the values of different parts shift in relation to each other. At a certain point, you will need to rebalance your holdings by shifting assets from one class to another, keeping the whole in line with your allocation plan.

4. Patience. This is the common-sense part and also the most important. When the headlines are predicting or describing some major movement in the markets, it's hard for many investors to "tune out the noise" and remain disciplined and committed to their long-term strategy. And yet, research shows that those who are able to do that are, most often, the ones who do well over time.

All of this points to why it's more important than ever to have a trusted, professional financial advisor to help keep you from jumping from one thing to another—and typically hurting your overall returns in the process. At Empyrion Wealth Management, our approach is designed to get you out of the game of worrying and guessing by having a plan that can provide peace of mind. We believe that the modern financial markets are the world's most efficient pricing

mechanism, and rather than trying to guess which way they're going, investors should formulate an individualized plan that allows the markets to work for them. It's a sensible approach you can live with.

Empyrion Wealth Management is a fiduciary financial and wealth advisor, which means that each recommendation we make is delivered with our client's best interest foremost. To learn more about our approach to investing, click [here](#) to read our white paper, "The Informed Investor."

Stay Diversified; Stay YOUR Course!

SOCIAL MEDIA DIGEST

In case you missed them, here is a roundup of my latest posts on social media:



Save the date! Kimberly Foss will be speaking at a breakout session on Monday, December 12, from 10-11 PT at the @FPA Conference in Seattle, WA. The session will focus on "Gray Divorce, Living Together, and Elder Care: Handling the Transitions." #FPAconference #financialplanningassociation



At Empyrion Wealth Management, we offer specialized, individualized counsel for #womenintransition. Whether you're going through a divorce, managing a career change, or prepping for retirement, we're prepared to help you harness the power of choice and navigate the path forward. #wealthmanagement #financialplanning



Those approaching #retirement have a lot of decisions to make. One of the most important of these is signing up for #Medicare. In our new checklist, we provide a summary of key points that you should keep in mind as you navigate the initial stages. Download the checklist for free! #financialplanning



KIMBERLY FOSS

President, CFP[®], CPWA[®],
CFT-I[™] Candidate

"We understand that every person we serve has distinct values and ambitions, and they each need their own plan for wealth management."



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