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GET OFF THE BENCH!

By Mark Pearson, President & CIO of Nepsis Inc. from InvestingWithClarity.com Blog

"The stock market is filled with individuals who know the price of everything, but the value of nothing."

– Phillip Fisher

Well, another year in the "markets" is in the books. It can probably be said that 2016 ended in a manner that probably surprised a lot of people. After all, with the S&P 500 experiencing a near 12% correction right at the start of the year, it can certainly be argued that investor sentiment at that time was quite low.

However, as many of our clients know, we LOVE volatility, and once again, the volatility created great opportunities to buy long-term investments on sale!

Of course, 2016, like years in the past, had its challenges in many areas. For starters, after the election we saw the bond yields spike with the 10-year Treasury hitting around the 2.60% mark. That is a huge move when you consider that during the year we saw rates in the 1.50% area, thus continuing what I believe will be a longer term bear market in bonds. Throw in the concerns over the election and Brexit (does anyone remember that??) making plenty to talk about!

Additionally, we continued to see the different markets around the world obtain various rates of return for 2016. Of course, here lies one of the many problems with the strategy of following or comparing your investment portfolio to a "benchmark".

Frankly, I believe it's a huge disservice and extremely unfortunate that the financial services industry and the media on many levels have conditioned and continue to condition many investors to compare their portfolio performance on an ANNUAL basis to a benchmark. I think that although there are many reasons why investors are not as successful in their investment process as they could be, the main reason is that they believe they need to compare their portfolio to a benchmark. This is a HUGE mistake! Of course, 2016 didn't help when we hear constantly in the media that most "active" money managers don't perform as well as the S&P 500 or other benchmarks and buying index funds is so much "cheaper" and better for most investors. It drives me crazy when I have to hear such generalized and potentially inaccurate statements. It's no wonder investors are not as successful as they can be!

Then you throw in the idea that it's "cheaper" to buy index funds too? The industry continues to train investors to focus on two things; short-term returns and fees. Unbelievable…

While a McDonald hamburger may be cheaper than going to a nicer restaurant, does this mean it is a "better" hamburger?

I spend a fair amount of time on our radio show "Investing for Success" explaining to investors that comparing a portfolio to a benchmark is a guaranteed way to potentially misinterpret the "QUALITY" of a portfolio. Comparing a portfolio to a benchmark does not give a true indication of what is REALLY happening with their investments.

The problem with this investment world is, the industry is trying to convince investors to just buy the benchmark – just buy the McDonald's hamburger. No offence to McDonald's, in fact, I think that when I eat one of their burgers (which is extremely rare these days) I find them to taste awesome! But, if I kept eating them, over time I would find that I would probably gain weight, probably have higher blood pressure and higher cholesterol due to the nutritional value of a hamburger *(disclosure: This is NOT a slam against McDonald's! Eat as many of their burgers as you want!)*

8674 Eagle Creek Circle, Minneapolis, MN 55378
(952) 746-2003 • Fax: (952) 746-2006 • www.InvestWithClarity.com
Blog: www.InvestingWithClarity.com I Radio: www.InvestingSuccessForYou.com

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Folks, it's true, at least most of the time – when we make decisions, sometimes at the time, we think they may make sense, but, we don't always know the long-term ramifications of these decisions. The same can be said for the investor's investment diet as well.

Folks, it's time to "Get Off the Bench"! Do you want to know if your portfolio is doing well? Do you want to know if your investments are doing the best they can? Well, comparing them to a benchmark will NOT do it!

You may be asking yourself several questions at this point, like, "How do I know if my portfolio is doing well or not?" or, "If I don't use a benchmark, how am I going to know that my advisor or money manager is doing a good job?"

There is plenty of empirical data out there that supports the notion that following benchmarks is a bad idea. But let's just look at this from a common sense standpoint that even the most inexperienced investor can understand. **First,** NOT ALL BENCHMARKS ARE CREATED EQUAL! To give an example using two of the most popular indexes, the S&P 500 and the Dow Jones Industrial Average, the S&P is MARKET CAP weighted and the Dow is PRICE weighted.

Second, what if you own bonds in your portfolio? News flash: The S&P500 and DJIA do NOT have any bonds in their indexes! Don't compare a balanced or more conservative portfolio to those indexes. It is NOT an apples-to-apples comparison.

What if the portfolio owns international stocks or emerging market stocks? The Dow and S&P 500 don't have those in their indexes either. By the way, I know what you may be thinking… "Well, why don't I just buy U.S. stocks because they do the best?". That may be true over time, but, TIME is the key word here. That brings me to another point on why you shouldn't use benchmarks – everyone's financial situation is DIFFERENT! There are periods when International and or Emerging Market stocks and indexes perform better than the U.S.

If you want to enhance your potential for investment success, you must have an appropriate asset allocation strategy that diversifies your portfolio and spreads short and long-term risks in a portfolio. The S&P 500 and DJIA will NOT do that for you.

Bottom line: It's time to stop benchmarking and asking each year why your portfolio didn't beat the S&P 500 or DJIA. Short-term performance is NOT indicative of long-term performance. A few questions to ask your Financial Advisor, or yourself would be:

1. *Is my portfolio allocated in a manner that will enable me to accomplish my investment and planning goals?*
2. *Is my portfolio allocated in a manner where I am comfortable with the short-term volatility of my portfolio?*
3. *Is my portfolio doing the best it can? What do I own? Are there potential things that could inhibit me from accomplishing my goals?*
4. *What do I own? Why do I own it?*

Of course, there are many other questions to ask about a portfolio than, "Why didn't my portfolio do as well as a benchmark?" By the way, if you insist on asking the question, be prepared for the answer and understand that statistically studies show that top performing money managers often under perform their stated benchmark. Yet, over time, perform very well. Funny thing is though; I never hear anyone in the media or firms that sell indexing talk about that. Maybe they do, but, in my 20 plus years in the business, I haven't heard it.

Invest with Clarity™! — Mark Pearson

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