A VIEW FROM THE EAGLE'S NEST

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Surviving Today's Investment Jungle

by Ed Dower

You may recall the 1988 movie *Bat 21,* about the extraordinary rescue of Lt. Col. Gene Hambleton, a U.S. Air Force navigator whose plane was shot down in the middle of 30,000 enemy troops in Vietnam. Intense ground fire prevented the first attempts to rescue him.

Hambleton was an avid golfer who remembered in great detail various courses where he had played. Using reconnaissance photos of the area, his rescuers laid out an imaginary course using the yardage and shapes of some of his favorite golf holes. Hole by hole, they radioed him instructions. Following the imaginary course led him past enemy camps, gun emplacements and unfriendly villages to the rendezvous two miles away with a Navy SEAL who led him to safety.

After traveling only at night for ten days, exhausted, thirsty and famished, Hambleton finally met his rescuer. Together they floated down river to a waiting helicopter that took off under enemy fire and whisked them to safety. The key to that amazing rescue was developing a plan and sticking to it in spite of the obstacles until success was realized.

The same clearheaded discipline in staying the course and sticking to a well-conceived plan is required in any chaotic investment climate. There are certain principles that wise investors understand and follow. Here are some of those bedrock principles of successful investors.

1. Uncertainty is the rule, not the exception—accept it. Long-term investors are always faced with uncertainty. In the 1970s they had to deal with the '73-'74 bear market, skyrocketing energy prices and gas shortages, rampant inflation, and an Iranian hostage crisis that lasted 444 days. In the 1980s they faced Black Monday when the Dow Jones Industrial Average lost more than 22 percent of its value in a single day, the Iran-Contra scandal, the S&L crisis (between 1987 and 1991 a total of 1,901 U.S. banks and S&Ls failed) and an assassination attempt on President Reagan. The 1990s saw the collapse of Long-Term Capital, the Asian currency crisis, the Russian default and a euphoric bull market. So far during the 2000s we've dealt with the bursting of the tech bubble, economic recession, geopolitical turmoil, myriad natural disasters, corporate scandals, rising energy prices and the subprime mortgage crisis (in 2007 three major U.S. banks failed). Yet, through it all the long-term trend of the stock market has been upward. Since 1970, the S&P 500 Index has increased over 5,000 percent. Put another way, an initial investment of $10,000 in 1970 would have compounded to over $500,000 today.

2. Expect periods of disappointment. Those of us who lived through the events listed above know this to be true. Even top-performing investment managers will go through periods of disappointment. Charles Munger, Warren Buffett's partner, delivered a 14-year cumulative gain of 1,156 percent, at a time when the S&P 500 gained only 103.3 percent. Yet even Munger underperformed the S&P in approximately five of those fourteen years. Could you live through those five disappointing years to earn such extraordinary long-term returns?

3. Have a well-conceived plan. Just as Lt. Col. Hambleton's successful rescue depended on a good plan well executed, so investing success depends of developing and following a well-conceived, formally written investment plan.

4. Set realistic expectations. It is easy to understand why many investors don't know what reasonable expectations are for stock market returns today. In 40 percent of all the rolling 10-year periods since 1928, the Dow Jones Industrial Average has returned 10 percent or less. Yet over the past 25 consecutive 10-year rolling periods, the Dow has reached that 10 percent mark or higher 92 percent of the time. Is it realistic to expect a 10 percent or higher return 92 percent of the time? Looking forward, one top U.S. institutional investment consulting firm expects stocks to average a little over 8 percent per year over the next 20 years. Setting realistic expectations can make a huge difference in the success of your investment plan.

5. Be patient. Accepting the certainty of uncertainty and expecting periods of disappointment as we follow a good plan may enable us to be patient through times like these. As unending and painful as these times may feel, staying the course is a key to attaining your objectives.

With sound principles like those, we can help you work your way through this financial jungle. If you would like us to develop a written investment plan for you give us a call at 916.858.1111. Or, if you would like to have a copy of our white paper *Creating Your Investment Plan*, stop by our office at 11335 Gold Express Drive, Suite 125, Gold River, CA 95670, or you can download it for free at, www.AEWealthAdvisors.com

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