OLD NORTH STATE TRUST, LLC

The Happy Medium of Investing: Pay Attention, But Not Too Much

As financial advisors, we have learned that a client's frame of mind is every bit as important as the particulars of what the markets are doing, how a stock or fund is performing, or what the economic outlook might be. Some investors are aggressive and want to be in control of everything, minute by minute. Others are so passive that they don't want to be bothered with any of the specifics of their portfolios.

We think both extremes are counter-productive. While we can't change a client's psychological makeup, we can offer guidance about useful ways to think about investing, and how closely to pay attention. Many of our suggestions will boil down to this simple truth: a happy medium is best, both for the health of your investments and also for your own mental health.

You may have heard the old investing adage, "Sell in May and go away." That's based on the idea that markets tend to be most volatile in mid-year. So if you sell your stock holdings in May, you avoid potential losses until October, when you can buy back into supposedly more stable equity markets.

Whether that strategy is wise is a subject for another time. But we mention it here because it's one way that investors may follow a formula or a catch-phrase, but don't really think too hard about actual realities on the ground – or on the markets' trading floors.

That kind of thinking can get people in trouble, because while certain trends may be true in general, or in the long run, or on the average, sometimes reality bucks those trends and bucks them hard. So the hands-off investor may not be working in his or her own best interests. "Out of sight, out of mind" can help you avoid worry, but it also means you may not be able to react intelligently to circumstances that require your attention.

If you don't watch the market at all, your view of the investment world's reality comes not from the facts, but may well come from people with an interest in your not understanding what's going on. That's how many very smart, prosperous, competent people got taken by the Bernie Madoffs of the world.

Just as bad, or worse, are those clients who watch the market a little too closely. And, just as the markets go up and down, so does their blood pressure! These micro-managing personalities don't just deny themselves peace of mind, they can also fall victim to the delusion that they can somehow outsmart the market, knowing exactly when to buy and when to sell. That's nearly impossible for even the best experts to manage, and typically results in wasteful "churn," unnecessary transaction fees and commissions, and missed opportunities for growth.

So that gets us back to that happy medium. We believe the smartest approach for an investor is to be aware, but not obsessive, about what's going on with your holdings. And to find, and stick with, a trusted advisor who has your best interest at heart. There is the big question, of course. Who do you trust? And how do you know that your advisor shares your interests?

Well, part of that is personal and psychological. It's never a bad idea when developing an important relationship, to trust your gut. Do you get a good feeling when you're dealing with somebody you've entrusted your finances to? Don't discount that good feeling and never ignore a bad feeling!

Also, it's a good idea to pay attention to references from friends, relatives, and business associates. We're not saying drop everything to hire that hot new broker that your cousin is breathlessly promoting to you. But do listen to the voice of experience from people you trust about how well an advisor or portfolio manager listens, understands the client's values and objectives, and explains their recommendations.

As we have said repeatedly in other articles, the best financial advisor is one who truly cares about you, understands your family situation, and knows your goals. When you're talking with your advisor, do you feel like a human being, with a history and a future? Or do you feel like a number or a dollar sign?

Beyond the question of personal trust is the matter of fiduciary responsibility and a vested interest in your financial well-being. One matter to consider is how your advisor makes money. If it's from commissions on trades, even a well-meaning broker may unconsciously steer clients toward buys that may be more profitable for him than for his client. Advisors who earn their living from fees – a set percentage of assets under management is a typical arrangement -- share your interest in making your portfolio grow, and not just in the short run.

So let's stipulate that you have that trusted advisor, and are following a well-thought-out strategy with clearly defined objectives. Don't wash your hands of the whole situation!

You should still take an interest in what that advisor is doing. Knowledge is power, after all. Don't understand a decision or recommendation? You should ask questions until you do understand. Think a suggestion doesn't jibe with your goals or comfort level? A good advisor will want to hear your concerns, and will be willing to talk about them.

But eventually, for the relationship to work, you have to let your financial advisors do their job. As Ronald Reagan once said, "Trust, but verify." And then, having done so, don't try to do your advisors' job for them!