COPLEY INVESTMENT MANAGEMENT
Independent Financial Consulting

2022: A Topsy-Turvy, Crazy Market

What can I say? It was truly an incredible year! The market was all over the board—up one day and down the next, in a crazy pattern. Paradoxically, many so-called experts on Wall St readily provided forecasts of where the market was headed at every turn. I just shake my head to think that somebody could forecast such a roller coaster.

Let me share with you some data that shows just how far off so-called experts have been over the 20-year period from 2000 to 2020. The median Wall Street forecast in 2000 was wrong on average by almost 13 percentage points per year. That error over the 20-year period is astonishing.

So, what should we take from these data? Is an investment strategy based on projections a fundamentally sound strategy? In other words, is an active investment strategy based on projecting stock performance, a strategy employed by most mutual fund managers and stockbrokers, superior to a passive investment strategy of diversification across multiple asset classes and within each asset class using exchange traded funds (ETFs)?

The academic literature unmistakably shows that the passive strategy is superior, but let's be clear: a passive strategy will not always outperform an active strategy. A few active managers can get lucky for a year or two but cannot consistently generate superior performance year in and year out. Over time, the odds clearly favor the passive strategy. This conclusion forms the base of my business model. The message is palpable: be patient and let the market perform its magic over time. Take what it gives without trying to outguess it. Risk drives return, not the other way round. The portfolio I construct for you is based on your long-term risk tolerance. You and I can't control the market but we can control your risk tolerance.

A corollary to the above conclusion is to invest in the stock market only when you are willing and able to assume the inherent risk. Combining stocks with other asset classes like real estate, natural resources, and bonds provide macro diversification benefits that efficiently manages risk. An efficient portfolio is one that generates the highest return for any given level of risk. My job is to create an efficient portfolio that fits your unique needs and risk preferences.

As we move into 2023, take a few minutes to update your risk tolerance—see the attached questionnaire. No need to complete a new questionnaire if you have no significant changes in your life over the past few years. Variables to consider include your health, the health of family members within your sphere of influence, your employment status, your estate plan, and your age. I would be most pleased to discuss these issues with you. Call anytime (M: 910-431-6308). All the best for a prosperous 2023. REC