MID YEAR ROUNDUP AND IMPORTANT INVESTMENT OBSERVATIONS

THE MONEY MARATHON BY ED DOUGLAS CFP®
JULY 2014

With half of 2014 behind us, I thought I would cover some important investment concepts that I have read and been reminded of recently.

*INTEREST RATES MAY STAY LOW FOR QUITE A WHILE:

Bill Gross, the head of the Pimco Funds recently said in the mid year Barron's Roundtable (Barron's, June 16, 2014 by Lauren Rublin) that the "New Neutral" is sluggish but continued growth for the economy and continued low rates. He expects the Fed Funds rate to increase from .25% to only 2% by 2017. He expects bonds to return only 3% in the future and stocks to return only 5%. As a result of his forecasted low rate environment, as investment alternatives for fixed income investors, he recommends closed in funds that borrow on a portion of their assets at .1 or .2 of 1 % and with these additional funds buy additional investments at 4% to 5% to make the overall return of the fund 7% to 8%.   **The lesson in this is that investors may have to adjust to a lower rate of returns than we used to expect.**

*INVESTOR RETURNS HISTORICALLY ARE MUCH LOWER THAN THE MARKETS

A new study done by Dalbar, a financial research firm ("Just How Dumb are Investors", May 9, 2014 by Jason Zweig @ wsj.com) says that investors have historically significantly underperformed the market averages over the last 30 years. This result is partially because of investment fees but more significantly because investors are moved by short term events and consequently invest at market highs and take money out at markets low, effectively overreacting to fear and greed. **The lesson in this is to be a long term investor; have a plan and stick with it.**

*DIVIDENDS MAKE A BIG DIFFERENCE:

According to a Wall Street Journal article ("Test Your Smarts…On Dividends" WSJ May 5, 2014 by Chana Schoenberger), the percentage of the S&P 500's total return attributed to dividends is 90%! Guinness Global Equity Income indicates that a $100 invested in the S&P in 1940 would be worth $17,400 today, but with dividends reinvested would be worth $265,851**. The lesson here is that dividends are important. I prefer high quality stocks that have a nice dividend and have historically increased that dividend for many years consecutively.**

*****HEDGE FUNDS HAVEN'T LIVED UP TO THEIR BILLINGS:

The HFR composite index which is a measure of hedge funds, has returned 72% over the last decade compared to 100% return for the Vanguard Balanced Index (mixture of stocks and bonds**)** ("Hedge Funds Don't Live Up to Their Billing", WSJ May 27, 2014 by Justin Lahart)**. The lesson here is that exotic new ideas loaded with large costs may not be as good as tried and true ways**.

*COSTS MAKE A DIFFERENCE:

Some recent advertisements have mentioned that investors who use advisors perform better than investors perform without advisors. I believe this is true because the professional advisor should try to keep an investor to stay on his plan. Even though this is true, costs have an effect. The Wall Street Journal reported ("Your Paying too Much in Fees", WSJ, May 10, 2014 by Liz Moyer) that according to Morningstar data, $200,000 invested in an exchange traded stock index fund with a cost of .04% would be worth $2 million in 30 years assuming an 8% return. However the same $200,000 invested in a stock mutual fund with annual costs of 1.25% would be worth only $1.4 million, $600,000 less. **The lesson here is that a good advisor or broker can pay for themselves but be conscious of costs and try not to over pay for products because this can have a significant long term effect on performance**.

I hope these points will help make you a better investor.

Remember that every investor's situation is unique and that it is important to review your specific situation with a financial professional.

Ed Douglas is a Certified Financial Planner CFP®/Consultant, Chairman Emeritus of Citizens Bancshares, and author of three books: *Making a Million With Only $2000-Every Young Person Can Do It, The Money Marathon: 7 Simple Steps to Financial Freedom* and *25 Truths: Life Principles of the Happiest and Most Successful Among Us*, available at www.eddouglas.com and on Amazon. Ed may be contacted for financial planning services or seminars based on his books at ed@eddouglas.com or at his office at 660-646-2066