

# Hazy Portents of the Future

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One of the best ways to create and maintain wealth is through systematic investing. But, it isn't sexy. So, will you do it?

In the 1987 hit movie *Wall Street*, the character Gordon Gekko brashly stated, "Greed is Good!" Until very recently this was the maxim of many investors. In light of recent events in the financial industry, however, this cry in support of greed has been quieted into a faint, closeted whimper. But, have the Gordon Gekkos of the world really disappeared, having finally learned their lessons? Or, are they laying in wait for the next great opportunity? History suggests that they have not learned from the recent market downturns. Thus, the Gordon Gekkos of the world may succumb to their greed once more. Managing the call for greater returns on investments is like tending to a rash. It itches. The natural impulse is to scratch that itch; but, applying ointment is often the best solution. The Itch Investment portfolio values are down, largely because of the current economic climate. To defend against these declining portfolios, investors flocked to conservative investments. However, the itch to restore portfolios to their past glory could cause investors to accept more risk in hopes of achieving greater rewards than their current, conservative investments will likely produce. Investors will continually respond to this itch by slowly injecting more risk into their portfolios. The itching could be intensified by the assumption that the regulations worked; that economists, government officials, and skeins of industry have accepted the mantle of stewardship and are keeping investments safe. When enough time passes, without any chaffing, investors will cease to focus on risk, only focusing on potential. If the investments fail, as they have recently, portfolios will once again suffer. Investing in this way is like opening a huge bag of chips and swearing that only one chip will be eaten. Eventually, one chip becomes several until finally the hopeful eater is left with a stomach ache, wondering where the chips went; blaming the manufacturers for producing such enormous feed bags. To avoid this slippery slope into risky investments, which usually begins with a sincere attempt to recuperate lost gains, myriad investment opportunities must be researched and analyzed before any investments are made. In short, before scratching that itch, consider the effects of the scratching: even more itching, chaffing, and possibly bleeding. The Scratch The danger in scratching the itch of greed is that investors often trade risk for potential gains in investments they only vaguely understand. However, before investors can invest in "the shiny new investment" it has to be created and offered to them. Banks and Private Investment Groups are first on the list of agitators, creating risky investment opportunities to the average investor. Banks and Private Investment Groups will enable more risky investments to exist. By funding companies of all types and sizes, there will be ample opportunities into which investors whom are seeking greater returns, in exchange for accepting more risk, may invest. Banks, like investors, will begin to want greater returns. They will begin to lobby against the regulations that constrain them. They will cite any combination of the following reasons for a loosening of the regulations:

- Banks are better judge of risk than regulators.
- Other control mechanisms inherent in capitalism obviate the need for regulations. For instance, the banks will claim that a bank's shareholders will not allow the bank to make risky loans. In essence, the bank's employees will lose their jobs if they do not obey the shareholders.
- The banks will claim that they got rid of all the wrong-doers, and are now staffed with goodly custodians.
- Over time, banks will cite the length of time they have gone without a bad incident.
- Do you want America to lose its competitive edge? The banks will assert that regulations are un-American to restrict our ability to compete against other lenders, especially our foreign counterparts. Banks initially constrained by fear, regulations, and shareholders, will lend to large US companies and extremely credit worthy individuals. This will create a need for entities to fund small, start-up, companies, in creative ways. Historically, this has been done by Private Investments Groups (e.g. venture capitalist and hedges funds.) Private Investment Groups will likely serve this role again. These groups will likely create new types of investments that are beyond the scope of the existing regulations. There is always a lag between the creation of new types of investments and the regulatory response to those investments. Most likely, "the shiny new investment" will have some esoteric name, it will be complex, it promise great returns on investment. In short, the average investors will not understand this investment but will be blinded by its potential. They will scratch the itch of greed by investing in products they do not understand. However, investors should stick with the investments they understand and that helped them accumulate their nest-eggs initially.

The Ointment One of the more reliable methods for creating, and more importantly retaining wealth, is systematic investing. However, systematic investing is not sexy. In the face of returns from "the shiny new investment", that seemingly will not fail or cease, it is very hard for the average investors stick to their plans. Yet, statistically almost 92% of a portfolio's return comes from properly allocating money across a myriad of assets.1 Moreover, rebalancing tends to work by forcing investors to sell high and buy low. Rebalancing is buying/selling the assets in a portfolio so that the initial percentage allocations of the portfolio are maintained. Further, investors should segment their portfolios, grouping money in accordance with the time horizons for separate goals. Investors should invest in accordance with their risk tolerance for each group of money.

In short, investors will start to itch in the next few years. They would be wise to remember the trepidation about risk they are feeling today, and stick to their plans. We hope you do too. 1Source: G.P. Brinson, L.R. Hood and G.L. Beebower, "Determinants of Portfolio Performance II: An Update," *Financial Analysts Journal*, May/June 1991. The above article was created by the professionals at Generations Financial Services. They can be contacted at [info@generationsfinancialservices.com](mailto:info@generationsfinancialservices.com) or at 800-260-1615. Generations Financial Services, Inc./SagePoint Financial, Inc. branch 44350: 660 Veteran Ave. #321, Los Angeles, CA 90024. Securities and investment advisory services offered through SagePoint Financial, Inc., member FINRA/SIPC and a registered investment advisor. Generations Financial Services, Inc. is not affiliated with SagePoint Financial, Inc. or registered as a broker-dealer or investment advisor. Past

Performance cannot guarantee future results. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment. Systematic investment plans do not assure a profit or protect against a loss in declining markets. No investment strategy, such as asset allocation, can guarantee a profit or protect against loss in periods of declining values. Rebalancing investments may cause investors to incur transaction costs and, when rebalancing a non-retirement account, taxable events will be created that may increase your tax liability.