8 INVESTMENT IDEAS

THAT STILL DON'T WORK

Here at Sungarden® it is extremely troubling to us that some of the same patterns we have seen lead to destruction of capital hit the radar screen again and again. They come in some new disguises, but we recognize them, and thus feel compelled to point them out.

By pointing out these potential oversimplifications, investor misjudgments and sales gimmicks, you will be more aware of Wall Street's increasingly confusing and complex temptations. To that end, here is a brief explanation of our top 8 investment ideas and approaches that have not worked much in the past and ***still*** don't work today:

1. ***The "hot" strategy***. Remember when you were a kid and you told your parents you did something because your friends were doing it? At least once in your life, your parents probably responded with "just because everyone is doing it, that doesn't make it right." Then they muttered something about "if your friends jumped off the Brooklyn Bridge. …"

   Here is how it often works on Wall Street: someone comes up with a decent strategic idea for investment portfolios, and it works for a while. Other firms decide to be copycats and create and market their own versions of the approach. The result is a glut of similar products.

   The early adopters of the strategy have a good experience, while the "Johnny-come-lately" types only enjoy the tail end of the success. Market conditions eventually change, and the strategy's weaknesses get exposed. Investors lose more than they thought they could, and get discouraged, realizing that they bought high and sold low. They conclude that their advisor is always one step behind, and they get caught up with the "herd." And the

herd never wins for long.

We prefer to focus more of our energies on an investment process we believe can be applied continuously and sustainably through all parts of the market cycle.

2. ***Focusing solely on how to make money with no plan for when markets don't cooperate.*** The problem is that losses are far more detrimental to your portfolio than gains are helpful. Remember, the money you are investing was likely earned due to your hard work. Especially if you are closer to retirement or are currently retired, you don′t want to give huge chunks of that back. When trying to bounce back from a large hit to your portfolio, the math works against you. For instance, if you lost about what the S&P 500 Index lost in 2008 (37 percent), you started 2009 with your portfolio worth 63 cents on the dollar versus the start of 2008. If you again matched the market's performance in 2009 (about 26 percent), you grew that 63 cents to about 79 cents. That's a nice improvement, but you are still nowhere near where you started at the end of 2007. This is why we try to be so diligent on risk—the big drop in value is what can set you back for years. We advocate an approach that at all times accounts for what could go right AND what could go wrong.

3. ***Assuming that bigger is better when it comes to investment advisors.*** The biggest fund companies have several drawbacks that often make them less appealing than investing with established, more entrepreneurial RIA firms, fund managers, and fund companies. Big firms are notorious for telling folks to "hang in there" and "always stay fully-invested" as it is in their best interest for you to stay invested in their products. ″Advisors″ at larger firms are often more like an army of salespeople. Instead, you may consider working with a boutique RIA firm that has a fiduciary duty to do what is in the client's best interest at all times.

4. ***All-or-nothing investment approaches***, such as "I am in the market" or "I got out of the market." Time after time we see this backfire on investors and their advisors. We think of investing as shades of gray, not black-or-white decisions. A strategy based solely on guessing your way in and out of the market pales in comparison to an approach that ties your portfolio decisions to your actual objectives for the money you are investing.

5. ***Hanging on every economic release as if it is make-or-break information for your retirement goals.*** We refer to this as "hanging by a Fed" and we caution against it. Same for the majority of "insights" that come from financial television. Those insights have an agenda, so be careful.

6. ***A glut of "me-too" investment products.*** People want to buy what they wish they had bought last year. Product producers know that and they feed off of it—and off of you if you are not careful. Recent examples include the explosion of alternative funds, managed futures investments, private REITs, and the latest one...

7. ***"Smart Beta" investment strategies.*** According to Investopedia.com, "Smart Beta" defines a set of investment strategies that emphasize the use of alternative index construction rules to traditional market capitalization based indices. Fancy language for what is often just an expensive index fund...with some great marketing.

   This is one area of investing that we do think is black and white. Either you're comfortable with investing in index funds (for better or worse) or you see the value in working with an active manager.

8. ***Leveraged ETFs.*** When we first heard about leveraged ETFs, we thought we were standing in a Starbucks store. "I'd like a double-short S&P mid-cap exchange-traded fund, please." We believe using them could potentially be a huge mishap for investors.

   Let′s be clear: unless you are day-trading these leveraged ETFs, the math works heavily against you. As a quick example, if you lost 40 percent of your investment last year but gained 20 percent so far this year, you would only be back to $72 for every $100 you started with (not $80 as some might expect).

   So unless you are a professional trader, investing in highly-leveraged ETFs is like strapping a teenager into a Ferrari when a Honda Civic is more appropriate for their skill and experience level. Our advice: stay tuned, stay educated, and stay off the juice.

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