

When Opportunity Is Disguised as Anything But Staying in the Market Using Active Management Is a Wise Strategy

By LORRAINE A. HART and CHERYL A. PATTERSON

Successful investing has never been for the faint of heart.

This has been especially true during this most recent 24-month period. Riding these recent highs and lows leaves one feeling quite dizzy. We have always maintained that a well-diversified portfolio employing high quality, active managers, coupled with a disciplined approach, will position investors favorably to take advantage of opportunities that the markets offer during periods of extreme volatility.

Last fall, when the economy and the markets came to a screeching halt, investor sentiment turned extremely negative in a very short period of time. As we then moved from the end of 2008 into the start of the new year, sentiment and the markets turned even gloomier.

Many investors could not stomach the idea of seeing their investment values decrease any further on paper; therefore, they moved to cash. These investors fled to 'safe' havens such as cash and Treasury bills, even when doing this meant receiving no interest payments.

This stampede to cash created various dislocations in the markets, or, in other words, opportunities for those investors with the fortitude to



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stay the course. Since this year's low on March 9, when the Dow reached levels in the 6,500 range, we have seen a tremendous run up in stock prices. It is, however, very important to note that not all stock price levels have increased significantly. This highlights the importance of investing with quality managers who can identify trends and pick stocks wisely.

There are market cycles when active managers, as opposed to passive management (as in index funds), produce significant value for their investors. We believe we have entered such a cycle. Extreme volatility in investor sentiment has resulted in an unprecedented amount of cash on the sidelines (not invested in the stock market). There is currently more than \$11 trillion in cash and/or money-market accounts. Eventually much of those balances will be deployed in investments with the potential for a higher return than cash and/or money-market accounts. The suc-

cessful investor should already be positioned in a diversified portfolio before other investors enter the markets chasing returns as prices increase.

As financial advisors, we believe it is our responsibility to assist clients in taking as much emotion out of investment decisions as possible; following the herd is not an investment strategy. These investors who have stayed the course have been, and in our opinion will continue to be, rewarded with rebounding portfolio values.

Once again, the old adage that it is time in the market, not timing, is proving to be the successful long-term strategy. Research has shown that being out of the market for just 20 of the best market days over the last 25 years cut investor returns in half. Since none of us ever knows what the best or worst days will be until we have the benefit of hindsight, staying the course will allow investors to take advantage of opportunities that are disguised as anything but. ■

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