

July, 2015

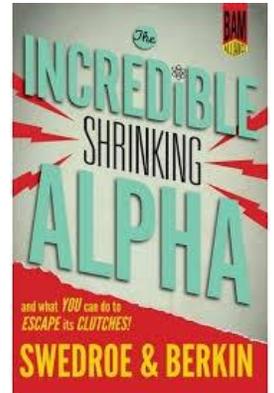


In search of higher returns

As published in the Racine Journal Times |
July 2, 2015 | by Justus Morgan, CFP[®]

One of the most pervasive ideas in investing is the belief that someone can consistently outperform the stock market. To think otherwise is almost un-American because it would conflict with the concept that with enough intelligence and effort, anything is possible. Unfortunately, when it comes to investing this idea is becoming increasingly hard to support.

In their new book, “The Incredible Shrinking Alpha” authors Larry Swedroe and Andrew Berkin reference numerous studies from the past couple decades to illustrate their assertion that generating higher investment returns consistently is a losing proposition. Alpha is defined as the investment return above the market return (which is called beta). Active management is all about generating alpha.



Of course, there will always be investors who outperform the overall market in any one particular year (or even multiple years). This can often be attributed to specific factors (such as investing in smaller or out of favor companies) or even just plain luck (when you have thousands of professionally managed portfolios, a few are inevitably going to do better than the average).

Swedroe and Berkin even point to evidence that Warren Buffett and Peter Lynch (perhaps two of the most famous investors ever) were able to outperform the market because they were harnessing the benefits of these various factors (albeit in advance of the factors being commonly recognized).

As technology and the skills of the professional investor have improved, it has become exceedingly difficult to outperform one another. Swedroe uses an example from baseball to illustrate this point. Even though the average skill of players has improved considerably in the last 100 years, no one has batted over .400 even though it was done multiple times a century ago. The professional investor has more and better competition today than ever before, hence the concept of “shrinking alpha”.

So what’s the takeaway from Swedroe’s book? Quite frankly, you do not need to rely on the skills of a highly paid mutual fund manager to capture the returns of the market or even increase your returns above the average. You just need to recognize the factors (which there are only a handful that have been identified so far) and adjust your portfolio accordingly.

I highly recommend Swedroe and Berkin’s book which is less than 100 pages. It’s not for someone just getting started with investing as some of the references to academic studies can get a bit complicated. However, if you’re frustrated with the performance of your portfolio, you may find the answers to what ails your portfolio along with some suggestions for making changes. 🍏

There's still time to RSVP for August 7 event



Our annual open house at UnCorkt located at **240 Main Street**, Racine will be held on **Friday, August 7** any time you can join us between 5:30 p.m. and 8 p.m.

Join the FSG team for Racine's First Friday and a little cool wine and warm company at our annual gathering for clients and guests. Call Paulette at 262-554-4500 x105 to reserve your spot (guests are welcome!).

Farewell, Lori!

Our long time administrative assistant, Lori Jozefiak, has left Financial Service Group so she can relax and be available to travel for business with her husband, Cary. Lori's youngest daughter is getting ready to start her college experience and this new phase of Lori's life promises to be exciting and refreshing. We will miss her and wish her well in all things.



Fun at the Lighthouse Run!

FSG was proud to serve as the corporate sponsor for the four-mile run as part of the Lighthouse Run on June 20. The FSG team took third overall in the Open Division. Several of the team members received individual metals in their age categories.



Long-term care workshop returns September 22

In this unique workshop delivery, Allen Hamm will join the discussion via webinar and provide an overview of the long-term care planning services he offers through his partnership with Financial Service Group. Allen will address your questions and concerns about long-term care and augment the interactive discussion on this topic. Also, Jack Louks from BrightStar Health Care will be here to talk about local home care options.

Please call our office at (262) 554-4500 to reserve your seat.