Investor Resolutions for 2016

SYNOPSIS
- New Year resolutions are a common practice for those trying to instill positive changes in their lives.
- Read these sixteen investment resolutions, which are designed to help investors achieve their long-term goals.
- Have a Happy New Year, and we look forward to a profitable 2016 and beyond.

Bringing in the New Year

I will read more nonfiction, take more vacation, hit the gym at least 4 times/week, overcome my paralyzing fear of needles, and possibly even try to dial down the road rage a bit.

These are just a few of my resolutions for 2016, and I would wager that many investors are in the midst of writing down their own personal goals for the New Year.

Now, we may not accomplish everything on the list (admittedly I've been trying to overcome my fear of needles since grade school), but reflecting on what can make our lives better is in of itself a beneficial exercise.

Within this context, I've created my "Sixteen for 2016," which is a compilation of suggested investment resolutions for the New Year.

1. Delete Those Stock Apps

There is no question that smartphones have changed our lives for the better, but one aspect of this advancement in technology that is doing more harm than good is the ability to access stock quotes anywhere at anytime.

Staring at stock prices all day long will do nothing but screw with your head. Delete those stock apps on your smartphone because there is simply no reason to be that connected to the stock market while waiting in line at a grocery store.

2. Pay Attention to Yield

Think about a rental property that generates monthly income. On any given day, week, month, or even year, the value of that property changes dramatically due to the volatility in the real estate market.

Would you sell a property that consistently pays rent after a year or two simply because the market was in a downturn? Think of yield on a portfolio of stocks and bonds as analogous to rent, which will likely drive the bulk of the long-term total return.

3. Stop Using Stop Orders

It's hard to think of more effective ways to lose money in equities than through the use of "stop orders." These orders trigger a sell once a stock price falls below a predefined level, and they were a big contributor to the losses experienced during the volatility spike back in August.

4. Trim Concentrated Holdings

Diversification is the "Golden Rule" of investing, and concentrated positions in a portfolio can be extremely dangerous. Just imagine how former Enron employees who funded their retirement accounts with too much company stock felt after the collapse.

Furthermore, holding concentrated positions for emotional reasons usually ends badly. These relationships are one-way streets, and any adoration you feel for an investment will never be reciprocated.

5. Take a Trip to Las Vegas

Those who want to day trade stocks and time entry points, take the money you are planning to invest and use it to pay for a trip to Las Vegas.

Most of the hotels and the casinos out there still offer gamblers free drinks, and you may as well get drunk if you plan to gamble with your hard earned money. Once it's out of your system, return home with a clear conscience knowing that your nest egg was likely spared.

6. Review Mutual Fund Fees

Read each mutual fund prospectus in your portfolio. Then, try to determine all of the hidden fees such as trading and marketing/sales costs (if you can find them). Add these up to get a better sense of what you are really paying each year to own that product.

Also be on the lookout for any strange tax bills in the mail. In years when mutual funds suffer heavy redemptions, investors often end up paying capital gains on sales within mutual funds that may or may not have made the investor any money at all.

7. Mind Your Surroundings

Investors do not need a fancy education and years of intense training to gauge broad-based economic activity. Many times, all we have to do is simply look around and observe.

Here's a great way to get started. Next time you visit your local shopping mall, take notice to how long it takes to find a parking spot. Then, when you walk by an Apple store or some other popular and relatively expensive place to shop, count the number of customers who are literally begging to spend money on products that are clearly discretionary.

And the next time you dine out, watch other tables to see how often the tables turn over and if they are ordering highly discretionary items such as appetizers and desserts.

Simple observations such as these can give us all a “feel” for the economy and will hopefully keep investors at ease the next time some market pundit on TV says that we are all doomed.

8. Explain Your Trades

One of my mentors in this business told me to never buy or sell a stock without first explaining the trade to someone else. This simple, yet highly effective rule forces an investor to really think through their reasoning before pulling the trigger.

9. Stop Looking for the Bottom in Oil

Calling bottoms in commodities is financial suicide. Accept the fact that you do not possess the information necessary to accurately predict when the bottom will arrive. Those investors that still want to buy into these dips without the intention of holding for several years should strongly consider booking that trip to Vegas instead.

10. Ignore Sensationalism

Sensationalism receive a lot of airtime because these theories are so out there that they attract viewership. More eyeballs translate to higher advertising revenue. It’s as simple as that.

The world does not end all that often, despite the warnings from fear mongers who published repeatedly about multiple events this year that were supposed to implode our financial system. These predators are using bogus stories to do nothing more than to get you to buy their $49.95 newsletter, and there is no law in this country that prevents them from robbing you.

Just think of the irony behind a firm selling a newsletter claiming that our world is coming to an end. If they are right, what are they going to do with the money they’ve collected from their readers?

11. Read This Book

Mark Twain popularized the following saying, “There are three kinds of lies: lies, damned lies, and statistics.” Investors often succumb to the dangers hidden within statistics because they carry very powerful psychological triggers.

Furthermore, what may appear to be a relationship is often nothing more than coincidence (visit http://www.tylervigen.com to learn that the correlation between the per capita consumption of margarine in the U.S. and the divorce rate in

Maine is incredibly high).

Read the book, *How to Lie with Statistics*. This quick read will open your eyes to the blatant misuse of statistics that impact several facets of our lives.

12. Stop Buying Gold

Gold should not comprise more than 5% of your overall portfolio. Owning up to this limit is acceptable for purposes of diversification, but keep in mind that gold is not an investment.

Investments grow over time, and gold's inability to increase sales, earnings, cash flow, dividends, and/or reinvest back into itself prohibits it from being considered a real investment.

Gold is a "store of value" and will do nothing for investors who fret the end of the world. Furthermore, our monetary system will never return to the gold standard, so ignore the fear mongers who are convinced that we are doomed.

13. Know Your Market Value

This one may seem rather strange but hear me out. The job market is like any other market, in that it is governed by the laws of supply and demand. When the demand for workers rises, the price of labor (aka "wages") rises.

One challenge with the job market is that it is very illiquid when compared to other markets. For example, the equity market allows us to determine the value of a stock rather easily. However, in the job market, the only real way to know what you are worth is to go out and get offers (bids) from prospective employers (buyers).

Over the past six years, the job market favored employers because demand for labor remained weak. However, unemployment (supply) is finally back down to the point where wages are starting to rise. Those still working may want to go out to see where their market value truly stands. You may surprise yourself.

14. Stop Panicking and Take a Deep Breath

Think of all the sources of volatility that we've been forced to endure over the last several years. Here are few that come to mind:

Greece, China, Russia/Ukraine, ISIS, terrorism, government shutdowns, debt ceilings, U.S. sequestration, Syria, Ebola, U.S. elections, Obamacare, U.S. debt downgrade, Detroit bankruptcy, Puerto Rico debt crisis, Fiscal Cliffs, Japan earthquake, bird flu, swine flu, Boston Marathon bombing, etc.

Despite the headlines, a $10,000 investment in an S&P 500 index fund in January 2009 would be worth around $26,000 today. The U.S. economy is analogous to a slowly moving oil tanker, and it takes far more than a few waves slamming into the bow to reverse its course. Sure, we feel big ones from time to time, but it won't slow us down for long.

15. Have a Friend or Family Member Ask One Simple Question

Here's some advice you can offer your friends and family this holiday season. Have them ask their financial advisor how they are paid. The answer to this one simple question can determine whether the advisor's interests are aligned with their client's.

If the answer is by commission, then push him/her to move to an advisor that is "fee-based" because anyone paid on commission is incentivized to do only one thing and that is to sell. Fee-based advisors only do well when their clients do well, so their incentives are aligned.

16. Keep Politics Out of Your Portfolio

I am the first to admit that my disgust and disdain for the U.S. government is at an all-time high, and the political stupidity of our fearless leaders in both political parties has become immeasurable. While I doubt that I am alone here, we cannot allow these emotions to impact investment decisions (especially during an election year).

This is still the greatest country the world has ever known, and the future of our economy remains strong. No matter who wins in November, keep in mind that he/she cannot turn us into the next Greece, Argentina, or any other failed society overnight.

Sincerely,

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