

Prudent investors focus on data, not noise

All of us have different dreams. You may want to achieve financial freedom so that you never have to work again – even if you plan on working the rest of your life. You may want to make a top-level college education possible for your children or grandchildren. You might want to provide the seed capital that will give your children or grandchildren a great start in life, whether that's with a home or a business. You may dream of a vacation home on the beach or in the mountains. Or you may have achieved tremendous success throughout your career and believe that it's important to leave a legacy that lives on. You want to leave something behind for your favorite charity that will enable it to continue on with its good work. Whatever your dreams are, they are important to you, which makes them extremely worthwhile. Let's get started making your financial dreams a reality by helping you rise above the investment noise.



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BUILDING WEALTH

Most investment professionals work very hard to make their work extremely confusing. They have a vested interest in creating investor confusion. They use jargon designed to intimidate you and make it difficult for you to understand. For the full details of this topic you can read "The Informed Investor" from our Web site. matrix at right classifies people according to how they make investing decisions. Quadrant one is the noise quadrant. It's composed of investors who believe in both market timing and superior investment selection. They think that they (or their favorite financial guru) can consistently uncover mispriced investments that will deliver market-beating returns. In addition, they believe it's possible to identify the mispricing of entire market segments and predict when they will turn up or down. The reality is that the vast majority of these methods fail even to match the market, let alone beat it, particularly after cost.

Unfortunately, most of the public is in this quadrant because the media play into this thinking as they try to sell newspapers, magazines and television shows. For the media, it's all about getting you to return to them time and



Intelligent investing

1. Investing is about your dreams and future family vision.
2. Most investment professionals work very hard to make their work extremely confusing.
3. By rising above the investment noise, you stand a better chance of achieving everything that is important to you.

time again. Quadrant two is the conventional wisdom quadrant. It includes most of the financial services industry. Most investment professionals have the experience to know they can't predict broad market swings with any degree of accuracy. They know that making incorrect predictions usually means losing clients. However, they believe there are thousands of market analysts and portfolio managers with M.B.A.s and high-tech information systems who can find undervalued securities and add value for their clients. Of course, it's the American dream to believe that if you're bright enough and work hard enough, you will be successful in a competitive environment.

Unfortunately, as un-American as it seems, in an efficient capital market this methodology adds no value, on average. Study after study shows that capital markets work.

Quadrant three is the tactical asset allocation quadrant. Investors in this quadrant somehow believe that, even though individual securities are priced efficiently, they (and only they) can see broad mispricing in entire market sectors. They think they can add value by buying when

The investment decision matrix

		Market timing	
		Yes	No
Security selection	Yes	Quadrant 1 Noise Most individual investors Financial journalists	Quadrant 2 Conventional Wisdom Financial planners Stock brokers Most mutual funds
	No	Quadrant 3 Tactical Allocation Pure market timers Asset allocation funds	Quadrant 4 Information Academics 40% of institutional investors

Source: CEG Worldwide. Analysis: Pillar Financial Services Inc.

a market is undervalued, waiting until other investors finally recognize their mistake, and selling when the market is fairly valued once again.

We believe that it's inconsistent to think that individual securities are priced fairly, but that the overall market, which is an aggregate of the fairly priced individual securities, is not. No prudent investors are found in this quadrant.

Quadrant four is the information quadrant. This is where most of the academic community resides, along with 40 percent of institutional investors. Investors in this quadrant dispassionately research what works and then follow a rational course of action based on empirical evidence.

Academic studies indicate that the average returns of the three other quadrants are negative, not positive. This is due to high turnover, which results in additional trading costs and higher taxes.

Quadrant four is where you should be, and where you'll find prudent investors. Our goal is to help investors make smart decisions about their money so that they are firmly in place in quadrant four. To accomplish this, we help investors move from the noise quadrant to the prudent investor quadrant. This is where you should be if you want to maximize the probability of achieving all your financial goals.

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