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Investing Lessons from March Madness

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Filling out a bracket for the NCAA championship basketball tournament is an annual highlight for many sports fans, myself included. With the NCAA Tournament around the corner, we can draw some parallels between filling out a bracket and investing. Bracket picks are a matter of balancing expertise, expectation, risk, and reward. Winning a pool with family or friends also requires some luck along the way! Here are 5 lessons from March Madness that also apply to the world of investing:

1. It's not about being perfect, but positioning yourself to get the most right. Your investing, like your bracket, is not going to be perfect. The odds of correctly picking the outcome of every game in the NCAA Tournament are about 1 in 9 quintillion. The odds of consistently selecting market-beating investments over a long period of time are equally daunting. The key to successful investing is about focusing on the things you can control, such as saving more, keeping investment costs low, and choosing an appropriate asset allocation.

2. Diversify. No one turns in a bracket with results for just one or two teams and expects to win the pool. People fill out the entire bracket to maximize their points and ensure that losses in one region can be compensated for with wins in another. Diversification is also very important to investors. No matter how sure you are of an investment, it's never a good idea to put all your money in one place.

3. Anything could happen, but it usually doesn't. Though there are always some upsets, favored teams usually do reasonably well. Investors shouldn't think that diversifying among long-shot stocks is a recipe for success. You could successfully pick every upset of the tournament if you only picked underdogs, but there is no way those few successful games could make up for all the losses where things went as everyone expected.

4. Last year's tournament was last year. Past performance guarantees nothing about the future. Investors (and basketball fans) should never assume that their best pick from last year will have a repeat performance. Similarly, the winner of your bracket pool might be skillful, but he/she might also just be lucky. We all know that person who won a few games just by choosing their favorite team colors! The same goes for mutual fund managers - their outperformance in any given period may be the result of skill or luck. It is quite common to see funds that have outperformed in a given period go on to underperform in the following period.

5. The drama goes up the more you watch. Though watching the action of a live game is the most exciting part of the NCAA tournament, it's one of the worst ideas in investing. Drama is good entertainment, but it almost never helps an investor. Watching every twitch of the market only leads to bad decision-making. A wise investor stays as detached as possible from daily stock fluctuations.

Money and Happiness

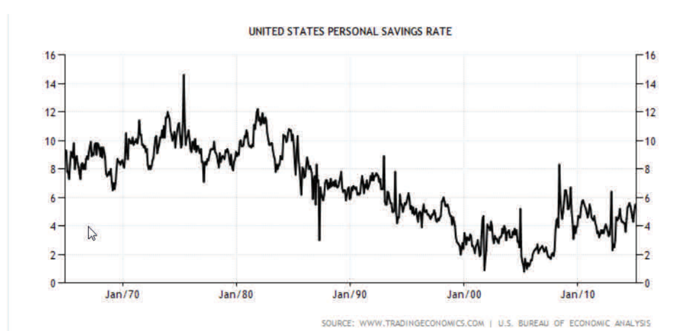
By: Debra Moran, QPA, QKA

Most of us know deep down that you have to save money for the future. At the very least, you need to have money set aside for the so-called 'rainy-day.' If you don't have a cushion, the consequence of a negative surprise can be a lot worse than if you have an emergency fund set aside.

The question is - can saving actually make you happier? A 2013 survey by Ally Bank suggests that it can. They asked more than 1,000 people what makes them feel good and got the following results:

- 59 percent said exercising makes them happy
- 74 percent said eating healthy makes them happy
- 84 percent said saving money makes them happy

The survey also showed that earning money contributes to happiness (no surprise there), but that essentially plateaus after household income crosses $50,000. In contrast, the more people saved, the happier they were. Given that the savings rate has dropped over the past 50 years, one could draw the conclusion that we're less happy than we were 50 years ago, based on the U.S. Personal Savings Rate:



Saving well ranks right up there with eating healthier and exercising more in terms of things we may aspire to, but often don't do as well in real life. I'm not sure that saving in the short run will make you happy, but like diet and exercise, consistent long-term savings will probably make you happier and make a difference in the long run.

> "Far more money has been lost by investors preparing themselves for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."
>
> ~Peter Lynch

Ask Acropolis

Q: I'm nervous about the stock market ups and downs. Should I adjust my allocation to something "safer"?

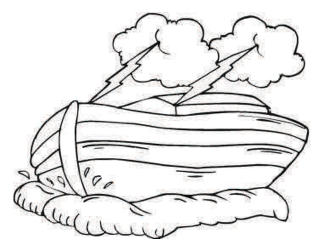
A: We frequently get asked this question and understand people's concerns. Looking back on the most recent recession of 2008-09, we did not recommend any strategic adjustments when talking with participants. Instead, we communicated the importance of sticking with the asset allocation strategy that was previously chosen, even during times of extreme market distress.

On the other hand, many people don't realize that discipline with your asset allocation is important in strong markets as well. During the stock market recovery over the last 5 years, rebalancing has helped people systematically invest profits from stock funds into bond funds or other fixed income options to ensure their account maintains an appropriate risk profile at all times. The Acropolis Target Retirement Allocations (ATRA's) make this easy since they are rebalanced automatically for you on a quarterly basis. If you are not utilizing an ATRA for your allocation, automatic rebalancing is an election you can make online for your account.

We believe market events like the 2008 crisis are almost, if not completely, impossible to predict as to their timing, severity and duration. Given that belief, we think the most important strategic adjustment you can make during a market crisis is "no change" if you have positioned your portfolio appropriately beforehand and regularly rebalanced it in a disciplined and systematic way. To share an analogy - this time of year makes me think of the well-known story of Noah's Ark:

When did Noah build the Ark?

Before the rain.



Point to Ponder

> "Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas."
>
> ~Paul Samuelson

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