Envy is the Thief of Happiness

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It is no secret that in our office we believe you receive the best possible outcome in investing if you use a diversified portfolio with a long term timeframe. But if this is the "best" way to invest, why does it sometimes feel like you're not getting the best result?

Because envy is the thief of happiness

The idea behind a diversified portfolio is that you spread your money between several types of investments. The goal is to have a built in safety net – the theory is when one investment struggles the other investments which are not struggling can keep you from crashing to the ground.

This means, hypothetically, when "the market" is down by 37% your portfolio will only be down by 20% (like in 2008). Great right! YAY!!! But there's a tradeoff…

You won't get killed, but you won't make a killing

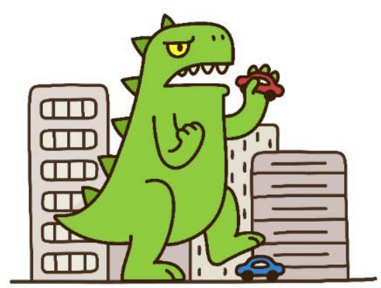
On the flip side you will likely see "the market" outperform your portfolio when times are good. For example, between 2009 and 2017 "the market" was up by 258% while a sample diversified portfolio was up by 152%.

So, why on Earth would you accept that level of "under performance"?

Why are you ONLY getting 4% returns when "everybody else" is getting 7% returns?

So you don't get killed

If you were invested solely in tech start-ups in 2000 you had a bad time. If you are invested solely in real estate in 2008 you had a bad time. If you're invested solely in high-rise real estate when Godzilla hits you're going to have a bad time!



(You never know, it could happen.)

What many people don't realize when they are "in their feelings" is a diversified portfolio, over the long term, can outperform "the market" despite not hitting the same highs as "the market". In fact it <u>has</u> since 2000.

The folks at BlackRock Investments have done some good research. Let's compare the returns for each time period and how those returns might make an investor FEEL…

Years	S&P 500 Index	Diversified portfolio	
2000-2002	-37.6%	-13.3%	"I lost money"
2003-2007	+82.9%	+57.8%	"I didn't make as much"
2008	-37.0%	-20.1%	"I lost money"
2009-2017	+258.8%	+152.1%	"I didn't make as much"

Now that's what I call an emotional rollercoaster! No matter what it seems like you're losing compared to "the market"… or worse, *other investors*. 😱

NOW let's look at the big picture, the long term, the total return from 2000 - 2017…

Years	S&P 500 Index	Diversified portfolio
Total Return	+157.9%	+175.5%
Growth of $100,000	*$257,880*	*$275,535*

"Diversification wins even when it feels like it's losing"

As you can see, once we broaden our view a bit the diversified portfolio outperformed “the market” by 17%. So despite all the feelings of envy the diversified investor might have had while watching “the market” hit its highs, they actually ended up making more money. (And let’s not forget they didn’t have to suffer as much during the market lows.)

At the end of the day it is important to remember that investing is not a game; it’s not about beating “the market” or Scott from accounting. By the way, Scotts NOT getting the 30% returns he’s bragging about on the golf course. And even if he is – good for him; who cares? You’re not competing with Scott. So sit back and enjoy the smooth(er than “the market”) ride.

You will “win” simply by having enough money to live your best life in retirement.

Insight Financial Advisors source: BlackRock “Diversification can feel disappointing”. Blackrock research source: Morningstar as of 12/31/17. Past performance does not guarantee or indicate future results. Diversification does not guarantee a profit or protect against a loss in a declining market. Diversified Portfolio is represented by 60% S&P 500 Index and 40% in the Bloomberg Barclays U.S. Aggregate Bond Index. Index performance is for illustrative purposes only. You can not invest directly in the index.