Advice Doesn't Have to be Complicated to be Good

> “Life is not complex. We are complex. Life is simple, and the simple thing is the right thing.
> - Oscar Wilde

Financial markets are complex, non-efficient and at times extremely volatile. This dynamic causes investors to forget about their long-term process during times of turbulence.

Investors become vulnerable to deviations from an investment plan when short-term market pain hits because it’s much easier to focus on the problems at hand than to worry about what it will mean many years into the future.

This forces us pay more attention to the minutiae and make small changes that probably have very little impact in the grand scheme of things.

In the classic investment book *Winning the Loser’s Game,* Charles Ellis shared a good reminder of the importance of focusing on the big picture:

Please keep in mind the observation of two of my best friends, who are at the peak of their distinguished careers in medicine and medical research. They agree that the two most important discoveries in medical history are penicillin and washing hands (which stopped the spread of infection from one mother to another by the midwives who delivered most babies before 1900). What’s more, my friends counsel, there’s no better advice on how to live longer than to quit smoking and buckle up when driving. The lesson: ***advice doesn’t have to be complicated to be good.***

The problem is that complicated advice feels better because making unnecessary changes to a portfolio gives us an illusion of control. Being busy right now is a great excuse for abandoning a long-term process that might not matter for decades into the future.

A well-known study performed by Roger Ibbotson found that more than 90% of a portfolio’s long-term variation in return and performance characteristics can be explained by its asset allocation. That means a much smaller amount is determined by an investor’s ability to time the market or pick individual securities over longer time horizons.

It’s not sexy to focus on things like asset allocation because it requires patience instead of action. But getting the big decisions right gets you 90% of the way there. A good investment process focuses on the big picture, simple decisions to avoid the complicated mistakes that can ruin a solid plan.

Source:
Winning the Loser's Game

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