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EYE ON THE MARKET

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COMMENTARY ON SPECIFIC MARKET ISSUES AND ACTIONABLE IDEAS TO CONSIDER

HOW LONG IS LONG TERM?:

Considerations for investing over extended periods of time

I recently attended an event at a Tampa-area assisted living facility to celebrate residents who reached 90+ years of age. Upon leaving the event, I reflected on how special it is that these individuals continue to live fruitful lives and how the definition of "long term" is changing. Today, people are living longer, more productive lives, and that trend is likely to continue with advancements in healthcare and technology. In fact, the Social Security Administration notes that on average, men and women who reach the age of 65 today can expect to live until 84.3 and 86.6 years of age. Given this increase in longevity, there are several basic concepts that investors should keep in mind when planning for the "long term."

I WANT THE TRUTH! YOU CAN'T HANDLE THE TRUTH (OR CAN YOU?)

Accurately predicting the future is challenging at best. With the future extending out over longer periods of time, ignoring two basic tenants of investing can severely limit an investor's ability to meet their financial goals.

1. Time Value of Money

In the hypothetical example depicted in Table 1, an initial investment of $10,000 is made over several different time horizons, all which grow by 4% per year. In this example, it is clear that the 22-year old investor with the longest time horizon will benefit the most, as her initial investment will grow to just over $120,000. This translates to a total return of approximately 1100%. The example is not intended to show what an investor should expect, but more so reflect the power of compounding a return over time. Yes, the 22-year old investor may have less to spend relative to someone who waits to begin saving, but the growth potential is hard to ignore.

Table 1

Estimated Future Value at 65		
Start Saving at Age	# of Years	Value at Age 65
22	43	$120,193
32	33	$67,115
42	23	$37,477
52	13	$20,927

Source: Raymond James

2. Reversion to the Mean

At its most basic, reversion to the mean suggests that the price and/or valuation of individual securities will rise and fall over the course of time. Over long periods, these metrics revert back towards a long-term average. As Chart 1 indicates, the price-to-earnings ratio for the S&P 500 ("P/E"), a common valuation metric, ebbs and flows over time. During the period of June 2010 through June 2012, the P/E ratio for the S&P 500 was below its long-term average, and since that point it has been elevated.

Chart 1

Source: Morningstar Direct and Raymond James.

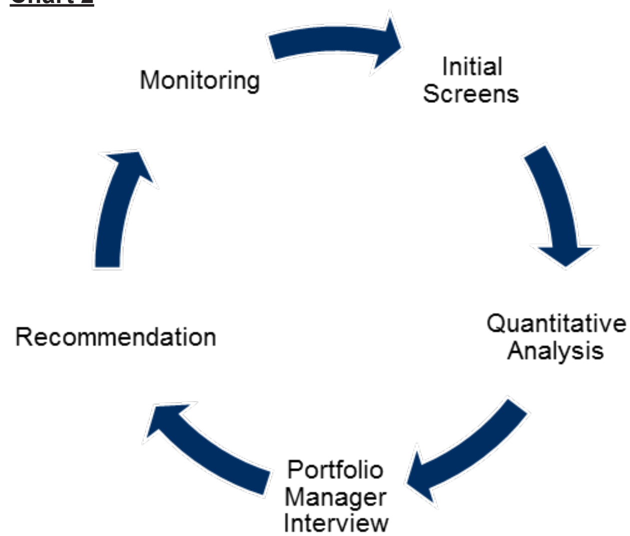
An investor may ask, "Why does this matter?" It serves as a guide for when a particular security or asset class may be over or underpriced, allowing the investor to make an informed decision as to whether buying, selling, or even rebalancing is prudent.

SECRET OF MY SUCCESS

No, I will not be channeling Michael J. Fox's characters of Brantley Foster and Carlton Whitfield from the 1987 movie, *The Secret of My Success*, as a means of espousing guidance. In order to achieve a successful financial outcome, an investor needs to consider his objectives and risks, and develop a long-term asset allocation that aligns with his financial goals. This is not a task conducted in a vacuum and it requires ongoing monitoring and review.

In the same vein, selecting individual investments or investment managers requires ongoing monitoring and due diligence as markets and strategies move in and out of favor. Mutual Fund Research & Marketing ("MFRM") for example, uses a five step evaluation process in identifying, selecting, and monitoring the portfolio management teams that oversee portfolios on the Highly Recommended Funds List. As Chart 2 illustrates, the process is continuous, and has been built to allow the team to use all phases of the process as a monitoring tool.

Chart 2



Source: Raymond James

In the opinion of EotM, the key to having success with this process is as follows:

1. Be Patient
2. Be Patient
3. Be Patient

In reality, this is a measured process designed for success over long periods of time. For those attempting to identify the next hot investment, this process will not suffice. In the case of MFRM, the team attempts to identify portfolio management teams with investment processes that can be consistently, sustainably, and repeatedly executed upon. This does not mean that the manager will be successful every day, but over longer periods it is more likely. In many ways, this process mirrors those used for evaluating individual companies, where analysts seek out firms with leadership that has a demonstrated track record of generating a growing revenue stream by consistently, sustainably, and repeatedly growing the business. The goal is to find and select portfolio management teams that can execute their strategy, regardless of the firm they are

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affiliated with. An example from the world of sports would be Joe Madden, who currently is the manager of the Chicago Cubs and had been the manager of the Tampa Bay Rays. He has a process that has been successful with different players on different teams over the course of time.

THE LONG AND THE SHORT OF IT

For an investor who is willing to be diligent both in developing an appropriate asset allocation, as well as selecting managers that have long tenures and proven success executing their strategies, the likelihood of meeting her goals has vastly improved as there are no guarantees with investing. The market may go up, it may go down and it may even trend sideways. With some planning, ongoing monitoring, and patience, achieving ones long-term goals and objectives is obtainable.

SIDE NOTE

The oldest living human being on record, Jeanne Louise Calment of France, lived to the age of 122, having been born in 1875 and passing away in 1997. While very few people plan for this type of longevity, it is worth thinking about for a moment. In fact, she first learned to fence at the age of 85. What sport would you first take up at 85? This all points towards the fact that planning for the long term is an evolving process.