Avoiding Market Regret

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Many investors are currently afflicted with "market regret" disease. Spooked by the great 2008 meltdown, they cashed out and watched from the sidelines while the market, including a 32% return in 2013, tripled beginning in March 2009. Others may have invested in exotic low risk strategies that often did not meet objectives or even succeed in preserving capital.

With indices near historical highs and yields near historical lows, many media pundits and strategists warn of markets running out of gas, major corrections, and systemic risks. Investors may want to note that it is often the same forecasters that opined dire warnings of cataclysms in 2009, and more recently at the beginning of 2013, all in the context of one of the greatest bull markets in financial history.

A basic understanding of the principles of capital market functioning can limit the damage to investors' financial health. Effective long-term investing requires patience, a well thought out core-satellite investment plan, and avoiding fashionable but unreliable investment strategies. Over the long term, markets are not irrational. Capital markets are driven by the overall health of the economy and its ability to be competitive and attract capital. Swings in basic economic value tend to be slow moving. While political dysfunction can do much harm, domestic and global macroeconomic fundamentals, in addition to innovation, are the main drivers of capital values. Whipsawed investors should learn that managing long-term investing risk requires effective diversification relative to a well-chosen level of systematic risk.

Long-term historical capital market data can be a valuable source of evidence for the benefit of long-term investing principles. Credible historical data for the S&P 500 index and short-term U.S. interest rates is available from 1926 to the present. Over this period, the S&P index returned an average of 11% with a standard deviation of 20% while short-term rates averaged 3%. This nearly 90 year record of the functioning of major capital markets includes periods of two world wars, a global depression, multiple major military conflicts, the cold war, high inflation and recessionary periods, medical epidemics, and much political dysfunction. While no one can predict the future, the historical record should provide testimony to the robustness of capital markets and the likely benefits of thoughtful long-term investing.

The record shows that New Frontier investors did not suffer from market regret. New Frontier continuously monitors domestic and global macroeconomics and political trends. We were convinced that the monetary macroeconomic and fiscal and regulatory machinery in place, in addition to the fundamental strength of the American economy at the turn of 2009, were likely to overcome over time the harm caused by the meltdown. It is also worth stressing that New Frontier's investment strategies are fundamentally different due to our unique patented investment technologies. In particular, Michaud optimization is the only procedure with a rigorous statistical proof of enhanced investment effectiveness. Michaud optimized portfolios exhibit a very rich unique level of diversification. More effective diversification is a key factor in New Frontier's long-term performance and our ability to weather financial storms over time.

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