FINANCIAL

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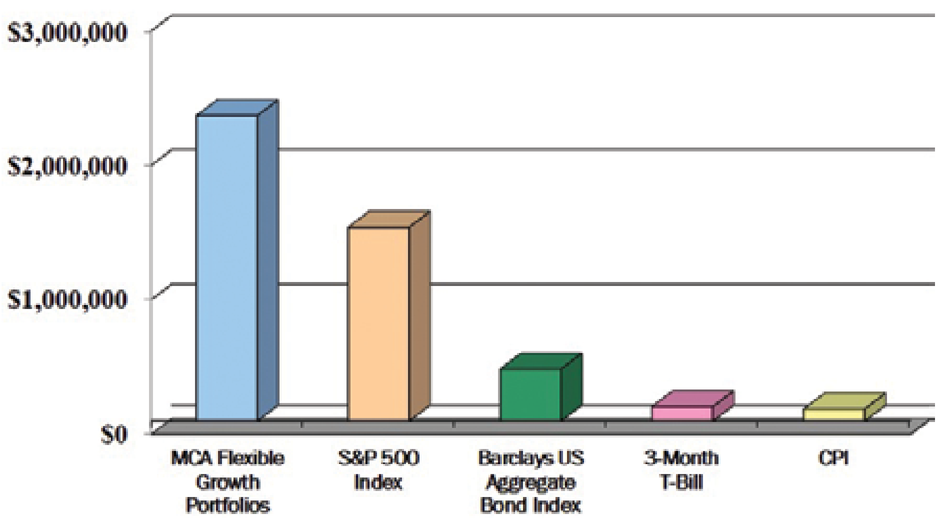
THE LONG-TERM RISK OF BEING TOO CONSERVATIVE WITH INVESTMENTS



Maintaining a conservative strategy will protect the principal of your portfolio, but is that true in the long run? Conservative asset types such as CDs, savings accounts, and bonds favorably predict an adequate margin of safety in the short-term (three years or less); however, in the long-term (five years or more), these asset types generate more harm than good. If you plan to be invested in the stock market for five-plus years, then your portfolio should be skewed more towards stocks.

Martin Capital Advisors, LLP, a registered investment advisor firm based in San Antonio, Texas has tracked the growth of $100,000 invested in various indices since January 1, 1991 to March 31, 2019 (see graph). If you had invested $100,000 during this period in the three-month T-Bill, which is considered the safest investment owing to it being a short-term debt obligation backed by the U.S. Treasury Department with a maturity of one year or less, your return would be $206,400 (a 2.6% annualized return). Compare that with other indices, such as the Consumer Price Index (CPI), one of the most frequently used statistics for identifying periods of inflation or deflation, at $188,900 (2.3% annualized return); the Barclay's US Aggregate Bond Index, at $486,700 (5.8% annualized return); and the S&P 500, at $1,540,800 (10.2% annualized return). This data indicates that T-Bills and the widely measured bond composite (Barclay's Aggregate Bond Index) have a significant risk to inflation, while common stocks outperform above all other securities over time.

Upon reviewing the chart, "Growth of $100,000," there are two variables worth understanding for long-term investing: inflation and volatility. Inflation, or purchasing power risk, is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time. Therefore, it is vital to not overlook purchasing power risk, given what $100 would have been able to buy 50 years ago would now take you $700 in today's money. Buy-and-hold investor Benjamin Graham says it well: "it's important to measure your investing success not just by what you make, but by how much you keep after inflation."

The second variable is volatility. There have been dramatic movements in the stock market since its inception. The S&P 500 Index (Standard & Poor's 500, the market-capitalization-weighted index of the 500 largest U.S. publicly traded companies) has experienced greater volatility than the Barclay's Aggregate Bond Index and the T-bill, but, over the long run, it has outperformed significantly. Common stocks are for investors who are willing to accept significant short-term volatility in the pursuit of superior long-term returns; while conservative investing is for those who wish to reduce short-term account fluctuations, accepting a lower long-term return as a result.

It is important to allocate your investment portfolio based upon risk tolerance and time horizon, but a word to the wise, beware of investing too conservatively. At any age, if your time horizon is five or more years, the historical odds favor a diversified blend of investments with a substantial exposure to stocks.

Past performance does not guarantee future returns. D

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