Cherry Tree Wealth Management

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CHERRY TREE WEALTH INSIGHTS: *Published by Keith Tufte, President of Cherry Tree Wealth Management, LLC, with insights on investing and wealth management.*

INVESTING QUOTE OF THE MONTH:

"Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it." – Albert Einstein.

INVESTMENT ADVICE FROM NOBEL PRIZE WINNERS

What are the smartest people in the investment business thinking and doing? Below we share investment advice from several Nobel Prize winners in finance and economics that we agree with and use. We think listening to people like Nobel Prize winners is better than looking for investment advice from a brokerage firm (who sell investment products) or CNBC (which promotes excitement/entertainment/urgency/trading).

HARRY MARKOWITZ, NOBEL PRIZE 1990, MODERN PORTFOLIO THEORY

- "There are two kinds of people, ill-advised and well-advised. The ill-advised watch Jim Cramer yell at them on CNBC. The well-advised just buys and holds a well-diversified portfolio, using index funds. They don't invite me on television, because my message is don't look at television, just diversify and rebalance."

RICHARD THALER, NOBEL PRIZE 2016, BEHAVIORAL ECONOMICS

- Opt for a mix of investments, mostly stocks; only check your portfolio about once a year, and don't follow the news. Just set it and forget it. Avoid reading anything in the newspaper aside from the sports section. Stay away from the financial section.
- Automate your savings plan. Set up regular automatic contributions to your 401(K) and investment accounts.

DANIEL KAHNEMAN, NOBEL PRIZE 2002, ECONOMICS

- Stop obsessively checking your investments. "Closely following daily stock market fluctuations is a losing proposition, because the pain of the frequent losses exceeds the pleasure of the equally frequent gains." It will lead to poor decision making.
- A "buy and hold" strategy beats a "buy and chase returns" strategy. And, a "buy and rebalance" portfolio beats a "buy and hold" strategy. Don't churn portfolios and trade too much.
- Think about how much of a percentage loss you are prepared to lose- 10%, 20%, 30%, 40% in a bear market. Then put that in total dollars lost for you. Imagine how that will feel, and what you might be inclined to do in that moment. Build your portfolio conservative enough so you can handle that loss and not panic and sell.
- The role of an investment advisor is less about portfolio positioning than understanding the frequently irrational biases of their clients. Behavioral research shows that clients have an exaggerated bias against short-term losses as well as a hindsight bias that gives them a false sense that the future is predictable. "I have doubts about active (stock picking) investing."
- Beyond a certain point (he estimates $75,000 per year), earning more money (annual income) won't make you any happier.
- Success is a combination of talent and luck. Luck plays a very large role in every story of success. A big challenge for investors is distinguishing between skill and luck (in terms of track records of stocks and portfolio managers). He recommends investors be skeptical. Stock and portfolio track records often don't repeat like most investors think they will.

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ROBERT SHILLER, NOBEL PRIZE 2013, ECONOMICS

- "Equip yourself with a solid investment strategy, tailored to your goals, risk tolerance and timeline- one that you can stick with no matter what."
- "People make better decisions with financial advisors. Financial advice is on a par with medical advice, people who have needs will spend a lot of money on both."
- The stock market is very difficult to predict in the short-term because "What actually drives stock prices is psychology, and it isn't always rational." Stock prices are more volatile than what future dividends (theoretical valuation) would justify.
- Shiller created a new way to value the stock market called the Cyclically Adjusted Price Earnings ratio (CAPE), sometimes called the "Shiller PE," which does a pretty good job of forecasting future 10-year stock returns. This valuation metric is currently very high, which implies stock returns will likely be below average over the next 10 years.

EUGENE FAMA, NOBEL PRIZE 2013. EFFICIENT MARKET HYPOTHESIS AND PORTFOLIO THEORY.

- "I'd compare stock pickers to astrologers, but I don't want to bad mouth astrologers." He recommends index-based funds instead. Fama recommends tilting your portfolios towards value stock funds and small company stock funds for premium returns over the long term.
- Recent past returns (three to five years) are basically noise and tell you nothing about future returns. There is no evidence that market timing works.
- On hedge funds, "If you want to get poor quickly, you should go into them."
- If you could identify the best mutual fund managers ahead of time, they may be good and they may be lucky, but you can't tell the difference.
- "I invest in index funds and inflation protected bonds." There is no point in trying to beat the market through selecting individual stocks. Chances are you will not succeed. He recommends owning broad-based index funds that own global, stock, bond and real estate markets.

We agree with this investment advice from these smart Nobel Prize winners. Many of them have similar advice to each other, and to our overall investment advice and philosophy. A few other smart people we listen to about investing are Warren Buffett, Jeremy Grantham at GMO, Larry Swedroe, and Rob Arnott at Research Affiliates. Let us know if you are curious about what they think.

Our investment strategy is global strategic asset allocation, using low-cost index-based funds, and a buy-and hold mentality. We manage diversified portfolios across many asset classes, globally, which are very tax-efficient. Our strategy is based on Modern Portfolio Theory. This investment philosophy is not very exciting or sexy, but we strongly believe it offers clients the best possible way to reach their financial goals.

Cherry Tree Wealth Management, LLC (CTW) provides unique wealth management services for a select group of client families to help give them peace of mind. Author Keith Tufte, (President of CTW) has over 25 years of successful investment management experience as a Wall Street Analyst, Mutual Fund Portfolio Manager, Director of Equity Research for a major mutual fund firm, Hedge Fund Portfolio Manager, and Wealth Management Advisor. Please FORWARD this e-mail to friends/relatives/business associates that you think may have an interest. Please see our website at http://www.cherrytree.com.

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