

## Commentary

# A Specialist's Playbook for Investors

One veteran adviser for high-net-worth clients believes the U.S. economy is in the process of making a fast comeback

BY RICK PITCAIRN

**M**any specialized firms that provide investment advice, financial management and personal services for ultra-wealthy families have seen the past three years take a severe toll on their clients' extensive assets.

That was not unexpected. The very well-to-do and their advisers were buffeted by the same market forces as everyone else.

But the clients whose advisers stuck to some basic principles of investing still came out of the Great Recession with their portfolios largely intact.

Those same principles can work for the ordinary retail investor as well.

The first principle is simple: There is no magic dust in investing.

Yes, we all read about the people who make fortunes through good timing or good luck or both. One shouldn't try to play like an All-Star or a consistent home-run hitter. Instead, to use another sports metaphor, one should stick to blocking and tackling — i.e., the fundamentals of the game.

That means educating oneself enough to ask an experienced investment adviser the right questions, to develop a long-term investment strategy and then sticking with that strategy. It means accepting that the typical retail investor is very unlikely to hit the jackpot. Those eye-popping gains are beyond the reach of most investors. The "easy money" — if there is such a thing — will be long gone by the time you learn about it.

And it also means refusing to get yanked around by day-to-day developments. That's for high-frequency professional traders and speculators. Economic cycles operate within much longer time frames than news cycles.

The second principle is that things are never as good, or as bad, as they seem. It's hard to stick with a long-term plan, but letting emotions get in the way leads to a diminishment of wealth.

One of the things that happened during the downturn was that many investors' first reaction was to freeze — and then they rushed to take risk off the table. Because it's almost impossible to get the timing right, most paid heavily for giving in to panic. In downturns, one needs to concentrate not on what is going wrong, but on what can go right. It is precisely the reverse in bull markets — beware of too much risk even when the lure of big gains is highly tempting.

The third principle is that investors should never underestimate the resilience of the U.S. economy.

One of the biggest mistakes people make in a bear market is leaping to the conclusion that this may be the end of investing as we know it. But the nation's economy continues to surprise everyone with its resilience — and keeps proving the smart guys wrong.

In 2008, the "experts" told us there was no way U.S. stocks would rebound in any major way and that the right move was investing in emerging global markets. Yet, the S&P 500 wound up outperforming the supposedly hot economies known as the BRICs (Brazil, Russia, India and China). Those who followed the experts found themselves chasing the U.S. economy.

Not only is the economy coming back — it is coming back stronger than expected. Corporate profits are up impressively. The Dow Jones Industrial Average, which skidded close to 6,500 in early 2009, now hovers over 12,000 — a truly astonishing gain in just two years.



Meanwhile, consumer confidence, which correlates closely with higher price-earnings ratios, is steadily, if slowly, rebounding. The one weak spot remains the high unemployment rate, but that should improve as companies begin expanding this year and next. That's why savvy wealth advisers are telling their clients to hold on to their investments in U.S. companies.

This is not to suggest we don't face serious bread-and-butter issues in this country that will challenge the fortitude of politicians and policymakers. But history shows we have overcome dire threats many times before — from the Great Depression of the 1930s to the economic crises of the 1970s. Each time, the investors who underestimated the recuperative power of the U.S. economy were proved wrong.

Many wealthy families have already recovered from the most recent downturn because they understood that sustaining wealth across decades requires the steadiness and perspective these principles call for.

Adhering to the basic strategy they represent, here are some specific tactics to implement:

**The one weak spot in the economy remains the high unemployment rate, but that should improve as companies begin expanding this year and next.**

- Make sure your long-term investment strategy fits your financial situation, especially your ability to endure volatility.

- Identify a pool of assets — say, 10% of the total — for tactical investments. Keep the rest for your long-term program.

- Don't let the ups and downs of the market stampede you into abandoning your core investment plan.

- Do change the plan over the years as your life changes — for example, as you approach retirement age.

- Don't get greedy — ever!

And, to re-state the most fundamental principle: The U.S. economy may suffer setbacks and downturns. However, it will always come back because it is fueled by the energy, imagination and entrepreneurship of the freest, most dynamic people on earth.

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