Three Upside-Down Investment Insights

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Often, all you need to be an excellent investor is a healthy dose of common sense: *A penny saved is a penny earned. Buy low, sell high. Don't put all your eggs in one basket.*

That said, the best way to achieve these simple goals isn't always as obvious. In fact, many of our favorite investment insights may at first seem counterintuitive. Today, we cover a trio of weird, but wonderful "upside-down" investment ideas.

Investment Insight #1: Market volatility is the norm, not the exception.

How often have you thought something like this: "The markets seem so crazy right now. Maybe I should back away, or at least wait until things settle down before I make my next move."

The problem is, the markets rarely "settle down." And when they do, we only realize it in hindsight. There are just too many daily seeds of doubt, forever being sown by late-breaking news. We never know which ones might germinate — until they do, or don't.

We suggest putting market volatility in proper context.

> **"Being surprised at equities' ups and downs is like visiting Chicago in January and being shocked by 8 inches of snowfall."**
>
> — WILLIAM BERNSTEIN

In other words, it's normal for markets to swing seasonally. It's just part of the weather. For example, in Dimensional Fund Advisors' commentary, "Recent Market Volatility," we see U.S. stock markets ultimately delivered positive **annual** returns in 33 of the 40 years between 1979–2018. But during the same period, investors had to tolerate average **intra-year** declines of 14%.

Investment Insight #2: Market volatility is your frenemy.

What if markets weren't volatile? What if all the days, in every market, were like November 12, 2019, when the Dow closed at the same 27,691.49 price as the day before?

If prices *never* changed, traders would become unwilling to trade; they'd have no incentive to do so. In this extreme, markets would no longer be able to serve as a place where buyers and sellers came together and agreed to price changes. Soon enough, markets would cease to exist.

What if there were just far *less* market volatility? You would probably soon discover how much you missed those same, downward price swings you ordinarily loathe. That's because, long-standing evidence has informed us: By giving up extra volatility, you also must give up the extra returns you can expect to earn by tolerating the volatility risk to begin with.

> **"If you're living in fear of the next downturn, consider shifting your thinking instead of your investments. Focus on controlling what you can control, such as how much you save, or finding the right stock/bond mix."**
>
> — DAVID BOOTH

Investment Insight #3: You can win for losing.

Wouldn't it be great to hold only top selections in your investment portfolio, with no disappointments to detract from your success?

Of course it would. It would also be nice to hold a $100 million winning lottery ticket. But just as the lottery is no place to invest your life's savings, neither is speculating on the razor-thin odds that you can consistently handpick which stars are next in line to shine.

Instead, we suggest building a broadly diversified portfolio covering a range of asset classes … and sticking with it over time.

By always being already invested wherever the next big run is about to occur, you're best positioned to earn market returns according to your risk tolerance. At the same time, spreading yourself across multiple asset classes also means you'll always be invested somewhere that isn't doing quite as well. This means you're unlikely to ever "beat the market" in a big, splashy way.

Here's a helpful way to think about committing to a mixed-bag (diversified) portfolio:

> **On a scale of 1-10, with 10 being abject misery, I'm willing to bet your unhappiness with a diversified portfolio comes in at about a 5, maybe a 6. But your unhappiness if you guess wrong on your one and only investment for the year? That goes to 11.**
>
> — CARL RICHARDS

Obvious in Hindsight?

We hope the insights we've shared now seem a little more obvious. We also hope you'll be in touch if we can help you incorporate or sustain these three upside-down ideas within your own portfolio management. Because …

> **"'[O]bvious' is often a long way from 'really believed and internalized' and in the gap between those two fortunes are made and lost."**
>
> — CLIFF ASNESS

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