# Successful Investing May Require Being Wrong Much Of The Time

## Saturday's With Jim

By Jim Pursley
President and CIO, Gaia Capital Management, Inc.
www.gaiacapital.com
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Dear Friends,

We like to look at investing as a journey to a destination. There are many others making the same journey, but only yours counts because it's the only one that truly affects you. After long and deep thought, you set out a path and begin your journey with your first investment. You are constantly bombarded with the performance of others' journeys – the passive indexes, friends, investment companies looking for clients and so on. Since few are investing in exactly the same thing, in the same proportion, few will experience the same journey (the same investment result). Bob Dylan's song line, "The first one now will later be last," or the Byrds, "For everything, there is a season," describe the performance of diversified investment portfolios perfectly. Some investments, by design, won't follow the price path of other investments. If you can embrace your temporary losers knowing that when the cycle turns they will again be winners, you can have a much safer, while still profitable, long-term investment experience than if you always tried to follow the changing leadership.

**How Being Wrong in The Short Term May Lead to Being Right in the Long Term**

We did a study in the 9/9/17 issue of SWJ, "Behind In Seven Of Ten Years, It Still Outperformed: 700 Words That May Change Your Lives", which compared the performance of a high quality and lower volatility fund to the S&P 500 Index from 2007-2016. Though the fund – Vanguard Dividend Appreciation Fund (VIG) – underperformed the S&P 500 in seven of the ten years in the study period, it slightly outperformed over the entire period – and was less volatile, too. The same underperformance/outperformance dichotomy can be seen in investments with long cycles, such as U.S. domestic stocks vs. international stocks, currencies, commodities and emerging vs. developed markets. For example, those who were 100% invested in U.S. stocks in the 1990's and since 2009 have done better than those who have diversified into both U.S. and international stocks. The pendulum swung, however, in the 1970's and much of the 1980's and in the 2000's.

As long-term investors, you are well advised to maintain a diversified position across one or more "dichotomies" such as described above unless the inflection points which change the leadership can clearly be delineated. Long-term outperformance sets up when you remain diversified through the cycles while occasionally trimming winners and adding to losers and by accepting the occasional setbacks as normal occurrences. Most likely, long-term outperformance comes when you make few portfolio decisions, follow your plan deviating only when faced with evidence to do so, and keep expenses low while paying less attention to the news and to the short-term up and down of our account balances. Thank you for investing with us.

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