

Managing the Madness

Market Commentary – April 2010

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The NCAA men's basketball tournament recently gave us many exciting moments, with unexpected wins by some teams and unexpected losses by others. It truly was March Madness.

In many ways, the NCAA tournament parallels our view of the stock market. We know the tournament as a whole has been a solid and successful venture for college basketball for decades, regardless of the teams involved. The same is true of the broad stock market, which has also been a successful venture for investors for decades, regardless of the stocks that comprise it.

However, as with individual stocks, the success of individual teams in the NCAA tournament cannot be so easily predicted. Each year, many 'experts' predict that higher-seeded teams will be winners based on recent past performance....but each year unforeseen events occur that result in those teams losing, 'busting brackets' across the country. Similarly, each year many 'experts' predict which stocks or mutual funds will be winners based on recent past performance....but each year unforeseen events occur that cause those stocks/funds to be losers, busting investment portfolios across the country.

Despite this proven randomness, many investors still try to follow the trends, outfox everyone else, and beat the market. The truth is, no one can actually pull that off over a long period of time. Some may get lucky with a few picks. Some may even enjoy a sustained run. But in the end, the market tends to be a bust for investors who misjudge its fickle swings.

Much like the NCAA tournament, the market is a creature that defies predictions. While it may seem logical to buy into a team (Stock A) that has better recent results, there is no guarantee it will be a better choice going forward than another team (Stock B) with recent losses. As we often say, "Has done" is no guarantee of "Going to do."

VW Advisors believes the better approach to investing is to recognize the market's unpredictability, and use that knowledge to increase the likelihood of superior long-term performance. We pride ourselves on an investment philosophy that takes an extraordinarily broad-based and low-cost approach, thereby avoiding any built-in biases toward the current 'favorite' stock or market sector. In essence, we invest in the tournament, not the teams!

When it comes to the NCAA tournament, we want to enjoy the Madness. When it comes to investing, however, we intend to stop the Madness, and give you the predictability, performance, and peace of mind you desire.

