



## Advisor Views

A feature from **Eide Bailly Financial Services**. *Advisor Views* offers timely investment news and market updates designed to keep you informed, while enhancing your overall investment experience.

### The Dirty Little Secret of Investing

Contrary to conventional wisdom or what pundits might have you believe, it's really hard to beat the market. Many try; most fail. (The term "beating the market" refers to an investment manager generating higher returns than the market of stocks within which they are investing.) Investors often lose sight of this widely documented phenomenon for one very simple reason: we place too much weight on recent events. This inherent bias is called Representativeness and is quite common among investors. Ability shouldn't be judged based on short-term success because most of us are long-term investors.

To be fair, yes, there have been active money managers who have found success in playing the market by delivering superior returns above the market rate of return. Here's a little realistic perspective: Beating the market for 5 years garners respect, beating it for 10 demands recognition, beating it for 15 years warrants the title of investment icon. One of the biggest mistakes that end investors make is assigning this extraordinarily rare skill to the general population of professional money managers. If indeed you do decide to put your faith in someone's ability to actively pick stocks, consider the following three part test:

First, you as an investor would have to believe that financial markets don't work very well, meaning stocks are often mispriced, and that the current price of a stock isn't a good judge of what it's worth. You would have to arrive at this conclusion because active stock pickers believe that they can identify these mispriced stocks.

Second, you would also have to believe that successful, active stock pickers exist - that have consistently (consistently being the keyword) shown an ability to outperform the broad-based market over very long periods of time.

Finally, and most importantly, as an investor, you must be confident in your ability to identify these individuals BEFORE they beat the market. Not after! Essentially you would be looking for the next great money managers BEFORE they became the next great money managers.

There are investments that are actively managed that may make sense in your portfolio, and as your advisory firm, we have the resources available to conduct due diligence looking for the right fit for your portfolio. However, our belief is that a passive investment strategy at the core of your holdings makes good sense.

## THE POWER OF PASSIVE FOR YOU

This has been an exercise in rationality, and to a degree, advocacy for the benefits of passive index style investing. However, recognizing the difficulties of beating the market isn't to say that achieving market rates of return using a passive buy and hold investment strategy is easy. It requires patience, emotional discipline and strict attention to detail when building, maintaining, and adjusting your portfolio over time. Therein lies the critical role of the financial advisor.

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