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Markets in a Minute:
What the Tortoise and the Hare Can Teach Us About Investing

Although the allure of making money overnight is incredibly hard to resist, in the long run, slow and steady wins the race. Read more about how time and patience are on investors' side in this latest Markets in a Minute.

From the golf course to other gatherings, when I share with someone what I do for a living, they want to know what stock they should buy. Or perhaps they ask about Bitcoin or gold/silver or the latest hot company to go public – whatever is soaring and making headlines. The allure of making money quickly and without much effort, whether it's through new technology or an underappreciated growth story, is incredibly hard to resist. As such, my answer of "a well-diversified portfolio" is rarely appreciated and often considered "boring".

Underappreciated though the maxim may be, Aesop had it right: slow and steady wins the race. A well-diversified portfolio that includes stocks and bonds, large and small companies, and U.S. and non-U.S. firms provides a much more reliable path to growth than any hot story-of-the-moment. In news cycles driven by views, likes and retweets, this boring approach to riches struggles to be truly appreciated. But that doesn't make it any less effective. For an empirically grounded, high likelihood of success route to wealth, let me be the Tortoise and not the Hare.

Keep Your Ego in Check

Aesop's Hare was fast, proud, and confident. He eagerly boasted about his talents. If he had had a Twitter account, he would be the one with many followers, not the Tortoise. But the Hare's talents made him overconfident. He was so sure that he would beat the Tortoise he came in and out of the race. Meanwhile, the Tortoise, continuing in a straight line at a consistent - if slow - pace, came out ahead. Unfortunately, there are no viral videos to show him racing across the finish line.

Like the Hare, many investors grow overconfident, thinking they sell their stocks and bonds to avoid losses and buy back in just before the market is about to rise again. As markets go haywire and headlines turn dour, it can be tempting to decide to "sit this one out" and sell your investments for a time - OR - perhaps wait until the storms have passed, and then reinvest in the market.

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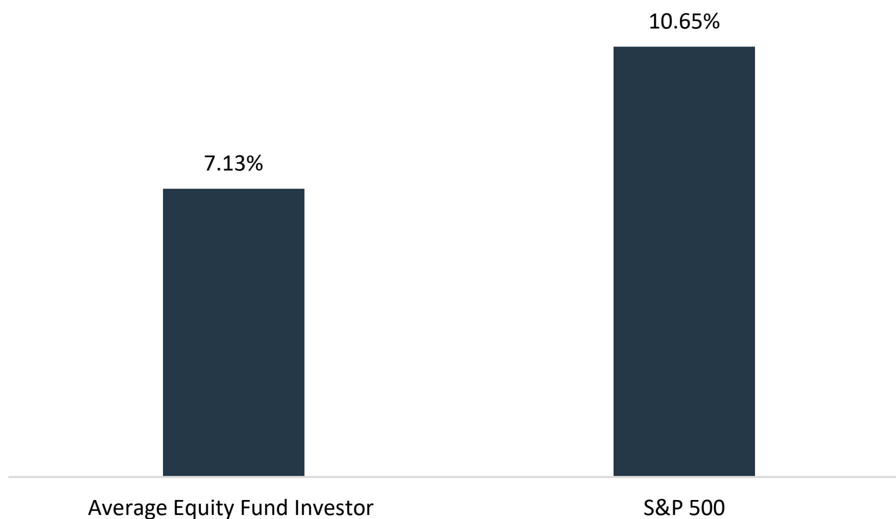
The sad truth is that most investors earn much less than they could by just holding on through bad and good markets. Data from the 2022 Quantitative Analysis of Investor Behavior (QAIB) shows that the average equity fund investor earned only two-thirds of the return that the broad market offered. While fees contributed to somewhat lower investor returns relative to the S&P 500, most of those lost returns were caused by investors trying to time the markets. So, most investors tend to act like the Hare.

The Dalbar Study: 30 Years of Average Equity Fund Investor Returns vs. the S&P 500

Average Annualized Return, 12/31/1945 to 12/31/2021



Past performance is not a guarantee of future results. Investing in stock involves risks, including the loss of principal. Indexes are unmanaged, and performance of the indexes includes reinvestment of dividends and interest income, unless otherwise noted. It is not possible to invest directly in an index. Source: DALBAR, Inc. with data from 2022 QAIB Full Study, as of 12/31/2021. DALBAR's Quantitative Analysis of Investor Behavior (QAIB) has measured the effects of investor decisions to buy, sell and switch into and out of funds over short and long-term timeframes. These effects are measured from the perspective of the investor and do not represent the performance of the investments themselves.

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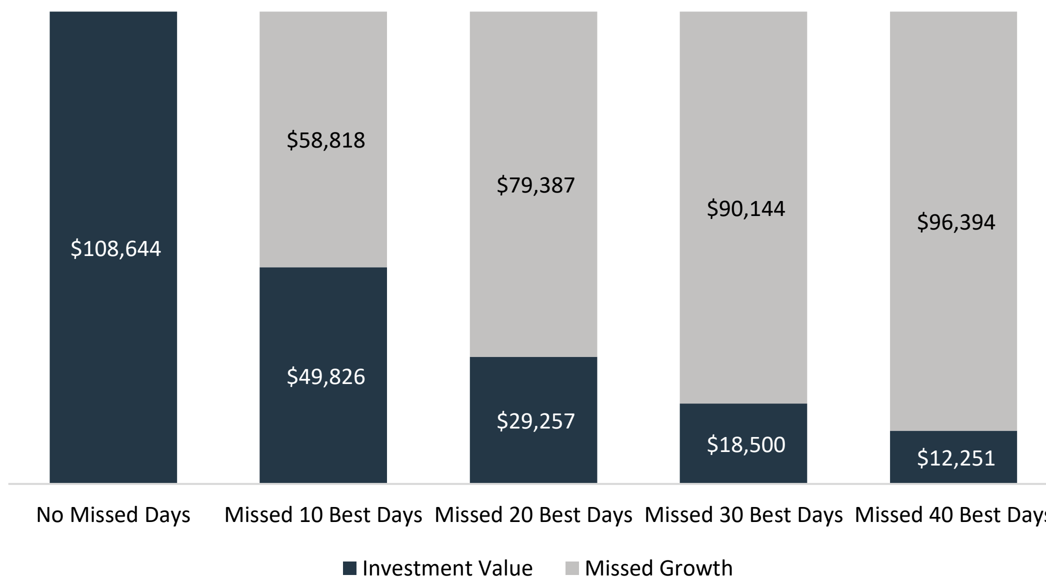
Don’t Sleep on the Job

In Aesop’s fable, the Hare *could’ve* beaten the Tortoise; just like in theory, investors *could* profit from selling at the top of the market and then buying back in again at the bottom. Aesop’s Hare lost because he was snoring away as the Tortoise ambled past him to win the race. In investing, even a short nap can be disastrous for your portfolio.

Here's a simple illustration of what’s at stake. Going back to 1990, a $10,000 investment in the S&P 500 would have grown to over $100,000 – an impressive ten-fold increase. Hit the snooze button, though, and not be invested during just ten of the best days in the market, and that nest egg would be just $47,000, less than half the potential.

Hypothetical Returns of a $10,000 Investment in the S&P 500 Index

Janurary 1, 1990 - December 31, 2022



Past performance is not a guarantee of future results. Investing in stock involves risks, including the loss of principal. The hypothetical example assumes an investment that tracks the price returns of a S&P 500® Index but does not reflect dividend reinvestment and the impact of taxes, which would change these figures. The “Best Days” were determined by ranking the one-day price returns for the S&P 500 Index within the stated time period. There is volatility in the market and a sale at any point in time could result in a gain or loss. Indexes are unmanaged, and performance of the indexes includes reinvestment of dividends and interest income, unless otherwise noted. It is not possible to invest directly in an index. Source: Factset, as of 12/31/2022.

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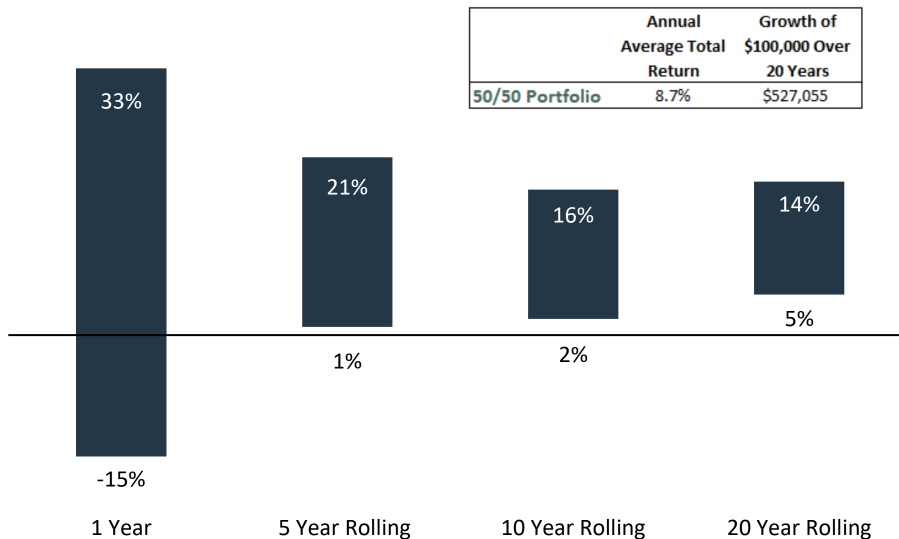
Take Your Time

What else does the tortoise portfolio need to be successful? **Time.** The longer an investor holds a portfolio, the greater the chance of a positive outcome. Looking back to 1950, a portfolio evenly split between stocks and bonds returned anywhere from up 33% to down 15% after a single year. But extend that time horizon to 20 years, and even the worst return was up 5% on an annual basis. In fact, on average, a stock and bond portfolio grew during that time period by fivefold. Now that statistic deserves a retweet!

Portfolio (50% Stocks, 50% Bonds), Range of Total Returns

Annualized Total Returns, 1950 – 2022



	Annual Average Total Return	Growth of $100,000 Over 20 Years
50/50 Portfolio	8.7%	$527,055

Past performance is not a guarantee of future results. Investing in stock involves risks, including the loss of principal. The hypothetical example assumes an investment that tracks the price returns of a S&P 500® Index and Bloomberg Barclays U.S. Aggregate but does not reflect dividend reinvestment and the impact of taxes, which would change these figures. Indexes are unmanaged, and performance of the indexes includes reinvestment of dividends and interest income, unless otherwise noted. It is not possible to invest directly in an index. Source: J.P. Morgan Asset Management, Kestra Investment Management with data from Factset, as of 3/31/2023.

Be the Tortoise, Not the Hare

When the Tortoise won his race, there weren't any cheering crowds, reporters, or medals. Just the simple satisfaction that a consistent approach and time won the day. This is a great lesson in how small, consistent actions over an extended period can overcome even the most difficult challenges. May our portfolios be similarly fortunate.

Invest like the Tortoise and live richly….

Barry

Important Disclosures

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