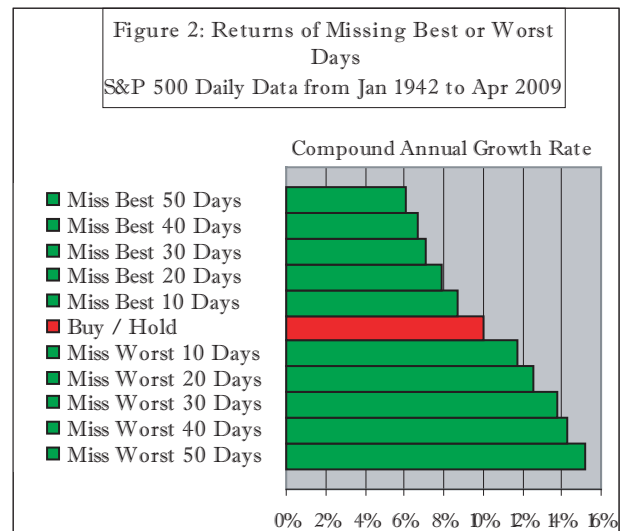
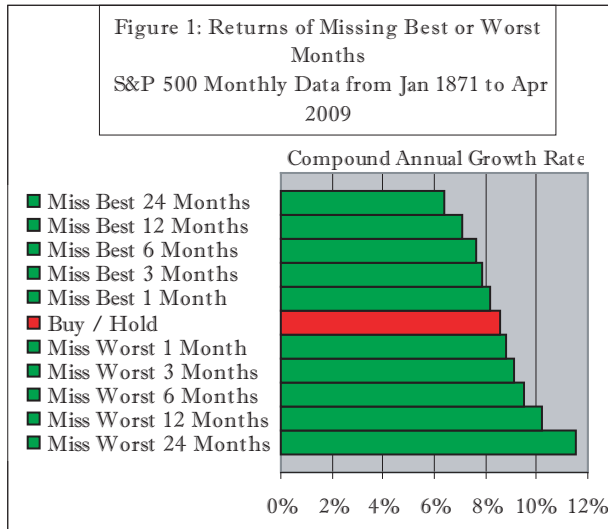


Proactive Asset Management vs. “Buy and Hold” strategies

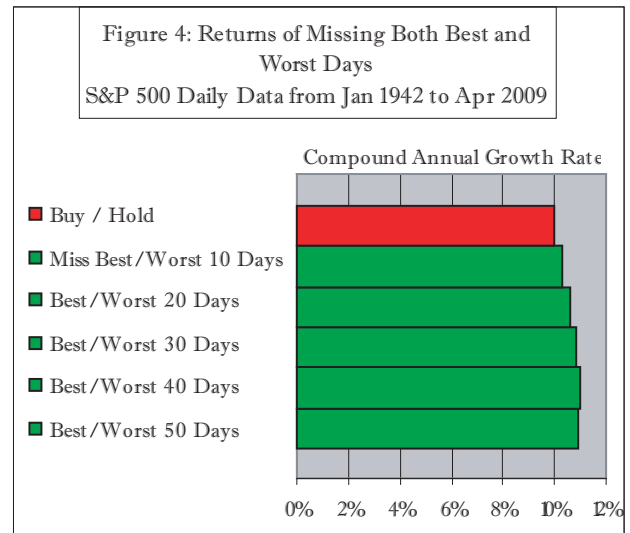
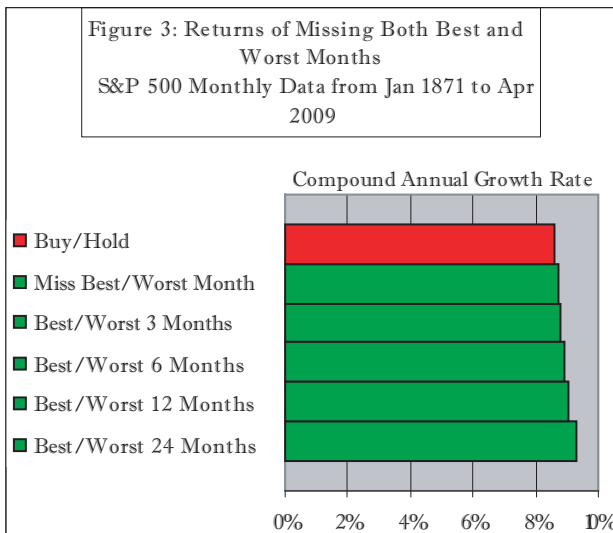
Wall Street has long touted the mantra of “Buy and Hold” as a sound long term investment strategy. The proponents of Buy and Hold argue, very compellingly, that investors “miss out” on the opportunity to earn competitive returns if they are out of the markets for only a few of the best days. They suggest that missing these big market surges push investment returns down into the Treasury Bill levels.

However, this argument conveniently ignores the risk of being hit by devastating market crashes and the associated emotional stress of staying in the market at all times. Investment analyst and MIT graduate, Theodore Wong, recently published* an illuminating study comparing Buy and Hold long term performance with strategies that moved you out of the market when risk levels were high. His study focused on the performance impact of missing the worst of the crashes at the expense of missing a few spectacular rallies and then comparing both with the traditional Buy and Hold approach.

Wong illustrates the performance impact of missing either the Best or Worst months of the S&P500 over the last 138 years in Figure 1. Excluding the best 24 months would reduce the return from 8.6% (the Buy and Hold benchmark) to 6.4%. Avoiding the worst 24 months could boost returns to 11.5%. In Figure 2 he analyzed the impact of missing either the Best or Worst days of the S&P500 over the last 67 years. Excluding the best 50 days lowers returns from 10.0% (the Buy and Hold benchmark) to 6.1%; but avoiding the worst 50 days increases performance to a remarkable 15.2%.



Figures 3 and 4 show the impact of missing Both the Best and Worst months and the Best and Worst days, respectively. In the analysis, missing both the best and worst extremes beats Buy and Hold, across the board. This clearly illustrates the importance of Investment Portfolio Risk Management when valuations are high.



Proactive Asset Management

Pacific Wealth Management®’s Proactive Asset Management strategy places wealth preservation at the forefront of the planning process. We combine fundamental, quantitative and technical research to implement investment allocations that effectively manage risk by actively seeking to participate in growth-oriented assets when risk is low and reducing exposure when risk is high.

Proactive Asset allocation and investment decisions are based on informed observations. This disciplined process is designed to make prudent asset protection changes before the markets make alarming moves. It is a wealth preservation strategy that provides stability and peace of mind by reducing portfolio volatility.

A significant benefit of this dynamic strategy enables assets that have been protected during times of stress to be redeployed when risk and valuation levels become more attractive. Unlike passive “buy and hold” strategies that follow markets through their peaks and troughs, or market timing, which seeks to call the top of a bull market and the bottom of a bear market, our approach strives to smooth out the peaks and valleys occurring during economic expansions and contractions.

Past performance may not be indicative of future results.

* What the “Missing Out” Argument Misses By Theodore Wong Advisor Perspective Newsletter May 26, 2009