

A Jonathan Pond ONE PAGER

...sometimes a little longer!



Jonathan D. Pond, LLC
TRUSTED INVESTMENT MANAGEMENT

Benign Neglect

In the course of my work reviewing portfolios for individuals and families, I sadly report that the majority - no, the vast majority - suffer from benign neglect. It doesn't matter if the portfolio is self-managed or professionally managed, the result is the same. The money is earning much less than it should. Here are the danger zones based on my work with clients:

- **Do-it-yourself investors.** Those who manage their investments on their own usually lack the time or knowledge to do so. They tend to buy hot-performing investments and then forget about them - for many years if not forever. That explains why formerly excellent mutual funds still have billions of dollars of investor money, despite the fact that they now rank among the worst funds in existence that no one in their right mind would own. Most do-it-yourself investors have no idea how their investments are diversified either. Finally, there is a large subset of do-it-yourselfers who think they have perfect knowledge of where the stock and bond markets are headed. The commonality among them is that their timing is perfectly imperfect. They know that stocks are going to dive right after they have dived. They also know with absolute certainty that stocks are poised for sharp gains right after - you guessed it - the market has just had sharp gains. No wonder their investment returns are pathetic.
- **Workplace retirement savings plans.** 401(k), 403(b), TSAs, and other workplace plans comprise a substantial portion, if not the majority, of a worker's investment portfolio, but also often suffer from benign neglect. First, the worker's plan may be rife with mediocre choices. It doesn't help that many employers are changing their plans and, sadly, making them worse. Still, the typical account holder simply buys a broad array of funds offered by the plan or a single target date fund with no consideration of whether the array of funds is sensibly diversified. Any changes tend to favor a hot fund with no consideration of whether the fund makes sense in the context of the investor's needs. As bad as most workplace plans are, employees tend to stay with the plan after leaving the company instead of pursuing the more sensible course of rolling it over to an IRA.
- **Professionally-managed accounts.** Even investment advisors are not immune from benign neglect, no matter how supposedly prestigious the firm. Some are constrained to invest in their proprietary funds when, in fact, much better choices are available. Others put client money into managed accounts with scores of miniscule stock holdings that usually mask poor overall performance. The manager him- or herself is often more interested in acquiring more business than tending to the business in hand. The client account is assigned a particular model portfolio with insufficient regard to the client's unique needs. I once saw two portfolios from one of the largest investment companies, one

for a 25 year-old aggressive investor and the second for a 75 year-old moderate-risk investor. Appallingly, the portfolios were identical.

Getting back to basics. Investing wisely and well requires a lot of attention, but it can be boiled down to two functions, diversification and investment selection/monitoring. Benign neglect invariably involves inattention either to diversification or investment selection/monitoring, or often, both.

1. **Diversification.** Studies have consistently shown that the way a portfolio is diversified is far more important to success than populating the portfolio with world class investments. Do you or does your investment advisor pay sufficient attention to or even know how you are diversified? The only way to get a handle on that is to combine all of your accounts. It's of little use to view diversification one account at a time.
2. **Investment selection and monitoring.** Once you get a handle on your overall diversification target, you can then go about the chore of adding good investments to each category and then periodically monitoring how the chosen holdings are faring. Neither you nor your investment advisor should hold onto funds that have proven to be stinkers over an extended period of time. One danger signal: if a substantial portion of your mutual fund holdings are in a single fund family. No matter how good the fund family; there are almost certainly better choices available elsewhere.

This is not brain surgery. As renowned Harvard economist John Kenneth Galbraith once noted: We'll always need Wall Street, if for no other reason than it is a place where we can send our least able graduates for gainful employ.

Benign neglect can be very detrimental to your retirement prospects and lifelong financial security. Smart people do a lot to maintain their good health. It's really a shame that they don't make sure their money is receiving the same attention.

