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*"Slow and steady wins the race." – Aesop, The Hare and the Tortoise*

You must have *patience* and *perseverance* to successfully manage money. Our investment method of strategic asset allocation seeks to minimize volatility and losses because doing so yields superior investment performance.

When it comes to investment success a slow, smooth tram beats a fast, wild rollercoaster To see why we need to understand the difference between *Compound* and *Average (Simple)* returns. The Average return used to promote investment products is misleading because you cannot spend it. **You can only spend a Compound return and volatility decreases it.** Consider this example:

	<u>Case A</u>	<u>Case B</u>
Year 1	5%	25%
Year 2	5%	- 15%
Year 3	<u>5%</u>	<u>5%</u>
Average Return	5%	5%
Compound Return	5%	3.7%

Notice that even though Case B's annual returns varied greatly while Case A's remained constant the Average Return was the same 5% for each case. A retiree with a \$1,000,000 portfolio looking only at the Average Return might assume she could withdraw \$50,000 each year and at the end of Year 3 still have her principal but since only a Compound Return can be spent she would be wrong in Case B. Let's see why:

<u>Case B</u>	<u>Begin Bal.</u>	<u>Return</u>	<u>New Bal.</u>	<u>Withdrawal</u>	<u>End Bal.</u>
Year 1	\$1,000,000	25%	1,250,000	50,000	\$1,200,000
Year 2	\$1,200,000	-15%	1,020,000	50,000	\$ 970,000
Year 3	\$ 970,000	5%	1,018,500	50,000	<u>\$ 968,500</u>

It's easy to see why Albert Einstein called compound interest the "eighth wonder of the world." Admittedly, our investment method will try the patience of those "get rich quick" personality types. On the other hand, avoiding the brunt of the financial storms and making steady progress should help all of us to persevere. It may be simple math but it's a smart strategy.

Sincerely,

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