Investment Insights

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The Model Wealth Program
Principle-Based Investing

"Principal-based investing means we focus on investment principals that have stood the test of time rather than basing our decisions on short-term market predictions. Our goal is to identify a small number of experienced managers who offer the potential to outperform their peers over a long period of time. Our approach is to combine a well-defined quantitative and qualitative due diligence process with proprietary construction tools to build, manage and monitor our client's portfolios."

The Model Wealth Program is a managed fee-based investment program, available through Cornerstone Wealth Management, LLC. The MWP investment team has developed sophisticated long-term strategies in an effort to manage and control risk, to help investors pursue their financial goals. For more information about the program, contact your Cornerstone Wealth Management representative.

A Strategy for Volatile Markets

How to invest at an "all-time high"

Lately, the stock market has been rising dramatically. For those who are in the market – that's great news. But some investors with cash to invest may feel uncomfortable investing when the stock market is near an all-time high. The problem is even more difficult if the investor has a large lump sum of money to invest, which could be the result of an inheritance, cashing out of a business, or a retirement rollover. No one wants to make the mistake of investing a large amount of money just before the next big stock market downturn.

One approach to this dilemma is to wait for a pullback before you invest. But that strategy is far from foolproof. Many investors who have been waiting for a better time to invest over the past several years have been terribly frustrated. While the stock market declined on several occasions, the declines were relatively brief, and usually associated with some bad news that convinced many people to stay away. True-to-form, the bull market then resumed without warning.

Systematic Investing

One alternative to market timing is to engage in a program of systematic investing. Systematic investing means investing a specified, fixed amount of money on a regular basis, regardless of what is happening in the stock market. The strategy is also referred to as "dollar-cost averaging."

Dollar-cost averaging simply means investing the same amount of money at fixed intervals. While the technique sounds easy enough, it does require discipline, especially in a down market. By investing the same dollar amount, dollar-cost averaging provides the opportunity for you to buy more of your chosen investment when its price is low, and less when its price is high. Over the long term, that discipline will mean your average cost should be lower than the average price of the investment. The following is an example of investing $100 a month:

Month	Price	Shares Purchased
January	$5.00	20
February	10.00	10
March	15.00	6.67
April	10.00	10
Total	$40.00	46.67

Average share price = $10 ($40/4 = 10)
Your average cost = $8.57 ($400/46.67 = $8.57)

As you can see, after investing $100 each month, or $400, your average cost of owning a share is less than the average price of the shares.

Hard Luck Hal

The following (hypothetical) illustration demonstrates the value of annual systematic investing for the last 20 years.

Hard Luck Hal has a terrible track record of timing the stock market. Every year, for 20 straight years, he invested $10,000 in the stock market – and each time he invested, he managed to put his money to work at the high point of the stock market for that particular year.

Key Takeaways:

- Systematic investing is a strategy to invest a specified, fixed amount of money on a regular basis, regardless of what is happening in the stock market. The strategy is also referred to as "dollar-cost averaging".
- The stock market has generally risen over the long-term. But if history is a guide, there will also be long stretches of time when the stock market goes sideways, or even declines. Systematic investing only works if the investor has discipline and patience.
- Systematic investing is an alternative to market timing. We believe time in the market has been more important than timing the market.

Hal longed to be more like his twin brother, Pete. Pete (whose friends call him Pete the Pro) also invests in the stock market. Pete's whole life is spent studying trends in the stock market and the economy. His favorite pastime is watching financial news programs on television. As a result of his hard work and intuition, Pete has managed to invest $10,000 a year for the past 20 years **at each yearly low in the stock market.**

Sister Mary admires Pete's stock market prowess, but feels fortunate not to have brother Hal's poor luck. Mary never believed in timing the market or predicting the future. For the past 20 years, she made a New Year's Resolution to simply invest $10,000 each January 1 in the stock market. She feels that by not studying economic and stock market trends, she would have a little more time to spend with family and enjoy life.

Here are the current values of Hal, Pete, and Mary's portfolios as of December 31, 2017:

Investor	Ending Wealth Value after 20 years	Average Annual Return
Mary (Invests every Jan 1)	$576,958	10.06%
Pete (Invests at the low)	$650,472	11.11%
Hal (Invests at the high)	$503,066	8.85%

Source: Cornerstone Wealth Management calculations. Data Source: Ned Davis Research Annual investments for the highest and lowest prices strategies were made after the close of business on the last trading day of the month selected. It is not possible to determine the top or the bottom of the market. The data series were constructed using wealth index values of the S&P 500 over the period January 1997 through December 2017.

Hard Luck Hal (cont.)

What is so remarkable about this study is not how small the *penalty* is for perfectly poor market timing, but how small the *reward* is for perfect market timing. One of the greatest fears of any investor is the fear that "As soon as I get in, the stock market will crash." One of the greatest reasons why people don't invest in the stock market is the desire to "wait for a pullback in prices." For whatever the reason, many of us feel that we have a lot more in common with Hal than with Pete. This study clearly indicates the value of "time in the market" is much more powerful than "timing the market." The benefit of systematic investing is irrefutable. In our view, the best time to invest is when you have the money available, and you have financial goals that need to be met.

Is Systematic Investing better than Lump Sum Investing?

What would have happened if the investor had simply invested the entire amount, $200,000 at the beginning of the period? From 1997—2017, $200,000 invested in the S&P 500 grew to $1,007,437, an average annual return of 8.42%. Clearly, systematic investing is not necessarily going to provide a larger dollar value if the stock market rises over the long-term. Investing as much as you can, as early as you can, should lead to higher growth in a rising market. But systematic investing is not meant to be a strategy for maximizing growth, it's meant to be a strategy for managing risk. The table below illustrates the experience of an investor that put the entire $200,000 lump sum in all-at-once, just before the two biggest declines over the past 20 years:

Event	Dates	Cumulative Loss
Tech Bubble Bursts	1/14/2000-10/9/2002	-45%
Great Financial Crisis	10/9/2007-3/9/2009	-55%

Source: Ned Davis Research

As you can see, investing a large lump sum all-at-once can lead to greater returns over the long-term, but it can also lead to painful losses over the short-term. An investor with a higher tolerance for wide swings in the value of his portfolio over the short-term may be better off investing his entire stake all-at-once, but an investor who wants to reduce the risk of a painful decline in the value of his portfolio over the short-term may want to consider systematic investing.

Time in the market

Investing in the stock market works if the long-term trend in the stock market is up. If history is a guide, we believe the stock market over the long-term will rise roughly in-line with growth in the economy and corporate profits.

Again, if history is a guide, there will be long stretches of time when the stock market goes sideways, or even declines. Systematic investing only works if the investor has discipline and patience. The strategy can be especially challenging during difficult economic times, but remember, that's often the time when you are buying more shares because prices are low!

The alternative to systematic investing – market timing – has been a fool's errand for many investors. Hopefully the examples in this report illustrate the large penalty investors often pay for poor timing, and the slim benefit investors earn for perfect market timing – something that is nearly impossible.

Systematic investing emphasizes the importance of maintaining a long-term perspective. In other words, time in the market has been more important than timing the market:

Time in The Market	
If stocks were held:	**Your chance of making money:**
1 year	73% of the time
5 years	87% of the time
10 years	95% of the time
20 years	100% of the time

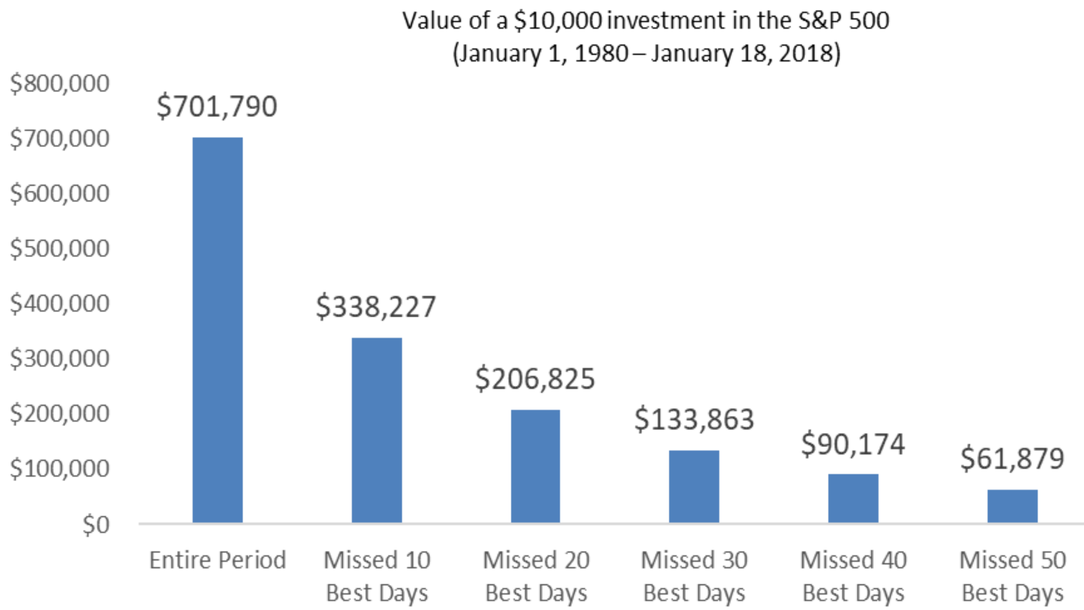
Source: SBBI Yearbook 2017, Roger G. Ibbotson. The chance of making money is determined by the ratio of the years when returns for the S&P 500 Index are positive since 1926. **Past performance does not assure future results.** This is a hypothetical example and is not representative of any specific situation. Your results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.

DataBank

	1 Yr	3 Yr	5 Yr	10 Yr
U.S. Large Stocks	25.6	13.8	15.9	10.1
U.S. Small Stocks	17.6	11.8	13.6	10.4
U.S. Bonds	2.4	1.5	2.0	3.8
Intl Developed Mkts Stocks	29.3	10.1	7.1	3.3
Intl Emerging Mkts Stocks	39.7	11.2	5.1	3.2
U.S. Inflation (CPI)	2.2	1.7	1.4	1.6

Source: Morningstar. Annualized returns for periods ended January 18, 2018. U.S. large stocks is the S&P 500 Index, U.S. small stocks is the Russell 2000 Index, U.S. Bonds is the Bloomberg Barclays US Aggregate Bond Index, Intl Developed Markets is the MSCI All Country World Index Ex-US, International Emerging Markets is the MSCI Emerging Markets Index. All Indices are unmanaged and may not be invested into directly. Returns include dividends and interest. Investing involves risk including the potential loss of principal. No strategy assures success or protects against loss. Past performance is not an indication of future results.

Timing the market



Total return includes dividends. These calculations do not include any commissions or transaction fees that an investor may have incurred. If these fees were included, it would have a negative impact on the return. Source: Ned Davis Research, JP Morgan The S&P 500 is an unmanaged index and cannot be invested in directly. **Past performance does not assure future results.** This is a hypothetical example and is not representative of any specific situation. Your results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.

Important Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. Investing involves risk including loss of principal. No strategy assures success or protects against loss.

Dollar cost averaging involves continuous investment in securities regardless of fluctuation in price levels of such securities. An investor should consider their ability to continue purchasing through fluctuating price levels. Such a plan does not assure a profit and does not protect against loss in declining markets.

Securities offered through LPL Financial, Member FINRA/SIPC

The Model Wealth Program

A professionally-managed advisory account can help take the emotions out of the investment decision-making process. Speak to your financial advisor about how you can set up a program to invest systematically into one of the portfolios in our Model Wealth Program.

Cornerstone
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A Registered Investment Advisor