We don’t invest money that we will need in the next six to 12 months; savings accounts or short-term bond funds are better choices for that money. Yet we still focus on short-term investment portfolio returns as somehow relevant to our long-term success.

In a year like 2014, where almost all stock asset classes outside of large US companies produced low to negative returns, this short-term mindset can lead to frustration and discouragement.

Short-term returns have always been volatile and unpredictable. Fortunately, a long-term focus can help drown out the short-term noise.

Consider the evidence in Table 1. From 1928-1994, the S&P 500 Index returned +9.8% per year, US large value stocks +10.9%, and small value stocks +12.8%. Five-year bond returns were lower at +5.1% per year. Over the last two decades, the annualized returns to the DFA US Large Company (S&P 500) fund, US Large Value fund, US Small Value fund, and Five-Year Global Bond fund were eerily similar: +9.7%, +11.2%, +12.9%, and +5.6%.

 Investors who focused on long-term historical averages have seen the last two decades as completely average and largely predictable. However, those who were fixated on month-to-month returns saw a long period of uncertainty with considerable and repeated frustration.

As we’ve just seen, 1995-2014 was not an extraordinarily good or bad 20-year investment period—US stock and bond returns were almost identical to the previous 70 years; international large and small value stocks came in a bit weaker with +6.7% and +7.6% annual returns. These “average” results were in spite of recessions, never-before-seen terrorist attacks, military conflicts, technology and real estate bubbles plus record government deficits.

Regina and Aaron’s long-term plans yielded impressive results despite all the political and economic uncertainty.
Net of her annual advisory fee, Table 2 shows that starting in 1995, Regina was able to draw out more income than she started with in portfolio principal—$1,017,634. Better still, her portfolio almost tripled in the last two decades despite the income demands, ending at $2,791,472. Best of all, her 2014 withdrawal had declined to only 2.2% of her portfolio value which would be easily sustainable for the remainder of her life and allow her to leave a sizable financial legacy.

Table 2 finds similar success for Aaron. Having saved only $740,000 (the $500,000 starting amount plus $240,000 in future contributions) since 1995, his portfolio had grown to almost $3,600,000 net of advisory fees. That amount of retirement savings at a 4% annual withdrawal would be able to support an income level that exceeded the amount he earned while working—more than $140,000 per year!

**If You Have a Good Plan, Stick With It**

But what if Regina and Aaron weren’t so fortunate to invest on the heels of the five-year bull market that began in 1995? Would they have been able to support their income needs or made any retirement progress if they had started on the eve of the 2000 or 2008 bear markets?

Table 2 also shows that, even with terrible timing and the deduction of ongoing advisory fees, disciplined adherence (with their advisor’s counseling) to their broadly diversified portfolios paid off.

**Regina’s Recent Results**

Starting in 2000, Regina would have spent more than $700,000 in annual income but had $1,408,487 in ending portfolio value—nearly a 50% increase despite a 15-year period where the S&P 500 only earned 4.2% per year and the International EAFE Index only 2.7% per year (an all-stock index portfolio would have yielded far less).

Even retiring in 2008, about to experience a 25% portfolio decline, Regina ended 2014 with about $1,002,237 while pulling out almost $300,000 in annual income. By any definition, Regina’s evidenced-based ending value by 2014 despite contributing less than $700,000 in total contributions ($500,000 upfront and $180,000 in ongoing monthly additions).

Starting in 2008, Aaron would have seen a 40% decline in year one, but ended 2014 with $824,840 despite investing a total of only $584,000.

**Looking Forward**

What does 2015 hold for the stock and bond markets? Hopefully after reading this article, your answer will be “I don’t know and I don’t care.” If you have an investment plan that is broadly diversified, based on the long-term evidence of how markets work and that is tailored to your particular goals, then this year or next year have almost no bearing on your overall success.

Instead of trying to predict short-term market moves or position your portfolio to capitalize on them, realize that controlling your emotions and maintaining the discipline to stick with your long-term investment plan, even during short-term upheavals, are the most worthwhile and proactive moves you can make. With long-term history as our guide, this strategy should also prove to be the most lucrative.

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**Source of data:** DFA Returns 2.0

*Simulations are hypothetical and for illustration purposes only.*


**Table 2:** DFA US Large Co. fund = DFUSX (DFLCX prior to 2010), DFA US Large Value fund = DFLVX, DFA US Small Value fund = DFSVX, DFA Int’l Value fund = DFVX, DFA Int’l Small Value fund = DISVX, DFA Five-Year Global Bond fund = DFGBX

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