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A BETTER WEALTH EXPERIENCE

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PORTFOLIO PERSPECTIVES

The Dangerous Stock Picking Game

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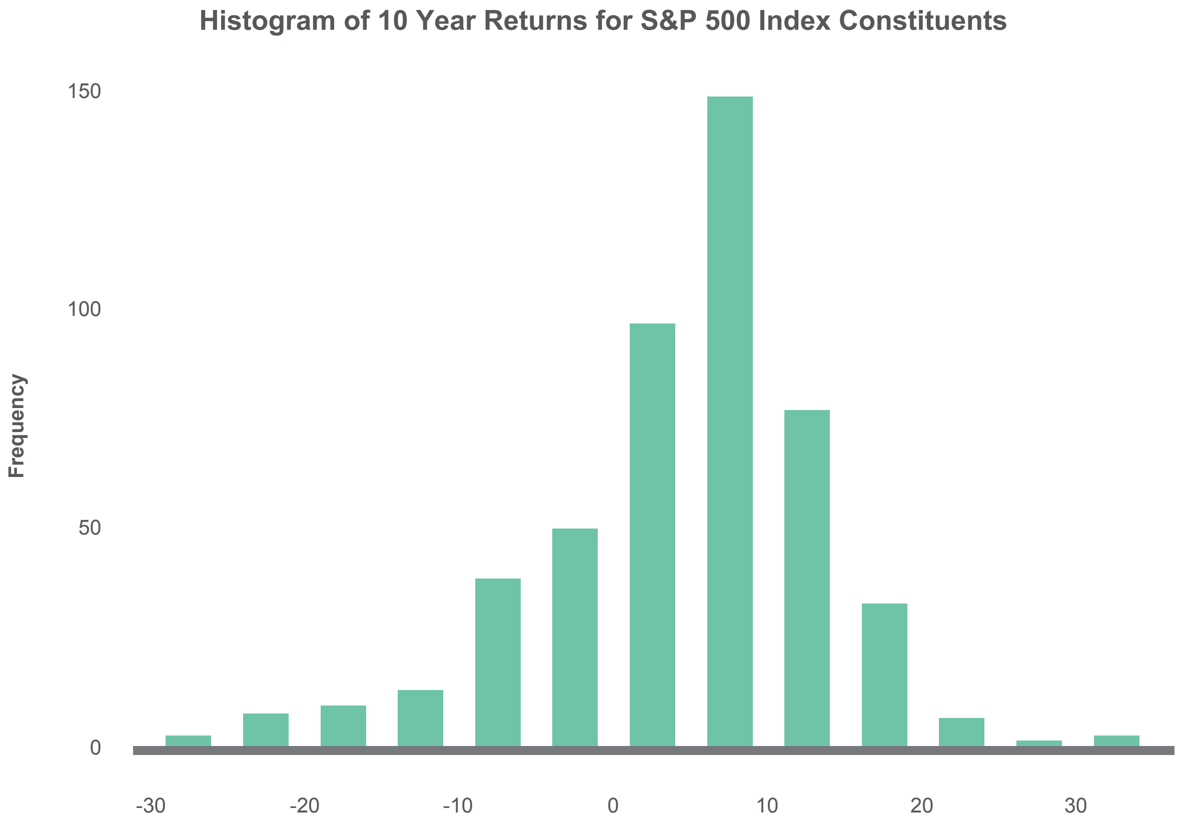
How good is your stock picking? Is it good enough to wager your retirement future on it? What happens if you are unlucky and pick the wrong stocks?



Source: Morningstar Direct November 2015. 10-year return as of September 2015.

The chart above shows the range of returns over the last 10 years for the stocks that made up the S&P 500 index, a popular measure of U.S. stock market performance. The difference between the best and worst performer was significant. Let's go back to 2005 and imagine you are a stock picker confined to investing in the stocks that comprised the S&P 500 Index. If you were the lucky stock picker, 10 years ago you would have invested in XTO Energy Inc., which gained

33.16% per year for the last 10 years. If you were the unlucky stock picker you would have invested in Sun Microsystems Inc., which lost 26.66% per year for the last 10 years. The difference in returns is significant and would have resulted in two completely different retirement outcomes.

If you are like me, luck is usually not on your side so there is no way you would bet your future on one stock pick. But what if you had the option of picking 20 stocks? The results are similar. The top 20 stocks in the index averaged 21.41% per year for the next 10 years. The worst 20 stocks lost 19.33% per year for the next 10 years.

The difference in returns is still significant and the difference in wealth even more so. A $100,000 investment in the top 20 stocks would have resulted in $695,731 today. And the same $100,000 investment in the bottom 20 stocks would have resulted in $11,678 today. Imagine a retirement with only $11,678 in savings. That is what is at risk when you play the dangerous stock picking game.

There is another option. You don't have to wager your retirement on a handful of stocks. You can invest in them all just by investing in the index. Over the last 10 years the return of the S&P 500 index has been 6.80% per year, a return good enough to almost double an investment over that time. A $100,000 investment would net $193,051 today.

You don't have to wager your retirement on a handful of stocks.

The next time you are tempted to wager your retirement on a handful of stock picks, ask yourself what information you have about those stocks that nobody else has. The market is made up of millions of participants, and stock prices reflect the combined wisdom of them all. Chances are they have all of the information you have and more, so the edge you thought you had probably isn't an edge at all.

Past performance does not guarantee future results and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

Indexes are unmanaged baskets of securities in which investors cannot directly invest; they do not reflect the payment of advisory fees or other expenses associated with specific investments or the management of an actual portfolio.

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