



## MAKE

Best States for Business;  
Hip Retail in Minneapolis;  
Eight Flourishing  
Family Companies

## GROW

Choosing the Right Trustee;  
10 Steps to Family Financial  
Health; Preparing Children  
for Estate Stewardship

## LIVE

How to Boost Your Life  
Span; Seven Great Family  
Trips; Should You Spy  
on Your Kids?

## CURATOR

Top Cigars and Surprising  
Drinks; Heirlooms for Sons  
and Daughters; Five New  
Luxury Family Cars

# Worth<sup>®</sup>

THE EVOLUTION OF FINANCIAL INTELLIGENCE

**PROTECTING WEALTH**  
THE FAMILY ISSUE



WORTH.COM

# 24

VOLUME 22 | EDITION 03



## Sterling Investment Advisors Ltd.

Timothy E. Flatley, ChFC®, President

# “Is following the crowd a sound investment strategy?”

By Timothy E. Flatley

Investing the way everyone else does may be a comforting practice. Investors may feel that if “everyone else believes it is a good idea,” then it probably is. Then, if this investment tactic fails to deliver the expected results, those investors can mitigate their disappointment by telling themselves, “At least I was not the only person wrong about the strategy.”

Generally, the experts on TV promote the current market trends, which further reinforces “group think.” Mimicking what everyone else is doing frequently leads to surprisingly mediocre investment results. A study performed by the DALBAR research organization revealed that the average investor, from December 31, 1982, through December 31, 2012, made an annualized return of 2.3 percent. Compare that to the following asset class returns during the same time frame:

Gold	8.4%
S&P 500	8.2%
Oil	8.1%
EAFE	6.5%
Bonds	6.3%
Inflation	2.5%
Average Investor	2.3%

**What went wrong?** In order to dramatically underperform most investments, the average investor makes a number of mistakes. But the primary error is selling after the markets have declined significantly, then repurchasing after the markets have already recovered. Mutual fund research performed by JP Morgan supports this assertion. Investors have been net sellers of stock funds every year since 2007, including 2012, when the S&P 500 index increased by 16 percent. **The trend has begun to reverse itself:** In the first quarter of 2013 the same index returned in excess of 100 percent from its 2009 lows. But investors remained net buyers of stock funds.

One needs to look no further than Warren Buffett to observe the advantageous approach to investing. In 2009, when seemingly no one would lend Goldman Sachs money, Buffett extended the Wall Street giant \$5 billion through an investment in a preferred stock issue. The terms of the deal required that Goldman Sachs pay Buffett 10 percent interest, with the caveat that he would receive a warrant to purchase \$5 billion of

additional shares at a price of \$115 per share.

Also, Goldman Sachs would have the right to purchase the preferred shares at any time for 10 percent more than the issue price. Goldman Sachs redeemed the shares in April 2011, creating a return of \$1.8 billion, comprised of interest and the repurchase premium. Buffett still held the warrants, which he sold in April 2013 for an additional \$1.4 billion, generating a total return of \$3.2 billion on his initial \$5 billion investment.

This story illustrates how Warren Buffett was willing to buy when others were fearful, only to sell after the markets recovered and people were trending toward irrational exuberance. Maintaining a disciplined approach to your asset allocation really helps to affect this strategy. After a prolonged market rise, you will have a larger allocation to stock, with the opposite being true during an extended decline. Rebalancing at both of these points will force you to sell high and buy low. While this method is no guarantee of outstanding absolute performance, it can help separate you from the crowd. ☺



Timothy E. Flatley, ChFC®  
*President*

---

**Sterling Investment Advisors Ltd.**  
1055 Westlakes Drive, Suite 150  
Berwyn, PA 19312  
Tel. 610.560.0400 | 877.430.7382

flatleyt@sterling-advisors.com  
www.sterling-advisors.com

REPRINTED FROM  
**Worth**®  
THE EVOLUTION OF FINANCIAL INTELLIGENCE

Sterling Investment Advisors Ltd. is featured in *Worth*® 2013 Leading Wealth Advisors™, a special section in every edition of *Worth*® magazine. All persons and firms appearing in this section have completed questionnaires, have been vetted by an advisory group following submission by *Worth*®, and thereafter paid the standard fees to *Worth*® to be featured in this section. The information contained herein is for informational purposes, and although the list of advisors presented in this section is drawn from sources believed to be reliable and independently reviewed, the accuracy or completeness of this information is not guaranteed. No person or firm listed in this section should be construed as an endorsement by *Worth*®, and *Worth*® will not be responsible for the performance, acts or omissions of any such advisor. It should not be assumed that the past performance of any advisors featured in this special section will equal or be an indicator of future performance. *Worth*®, a Sandow Media publication, is a financial publisher and does not recommend or endorse investment, legal or tax advisors, investment strategies or particular investments. Those seeking specific investment advice should consider a qualified and licensed investment professional. *Worth*® is a registered trademark of Sandow Media LLC. See "About Us" for additional program details at <http://www.worth.com/index.php/about-worth>.