



INVESTMENT ADVISORS, LLC

Book Review

Simple Wealth, Inevitable Wealth, by Nick Murray

With decades of experience working with clients and their advisors, Nick Murray has written several books, most of which are addressed to financial advisors in their effort to work with clients. In this book, Nick addresses the clients of financial advisors who are trying to accumulate wealth.

One of the more interesting sections of the book has to do with the definition of risk. Mr. Murray feels that investors, and many advisors, are mistaking volatility in the markets for risk, or equating loss of value in an investment portfolio as loss. In reality, he would say that risk for most people is the potential for an investor to suffer a permanent loss of capital at some point during their life expectancy, or in other words, outliving their money.

To guard against this risk he offers the following suggestions

- 1) Stocks are the only investment that will allow for the growth of purchasing power over time after inflation and taxation. One of investors greatest mistakes is to allocate too much of their portfolio to bonds or cash. In fact, he argues the greatest risk to an investor's financial future is not volatility within the daily fluctuations in the market. Rather, the greatest risk in terms of long-term purchasing power is not owning enough stocks.
- 2) Market timing does not work. Nick uses an example of two imaginary investors, one who invests \$10,000 per year at the market low for each calendar year for twenty years beginning in 1984. This investor timed the market perfectly each year. The other invests \$10,000 per year at the market high for each calendar year during the same period. This investor had the worst timing. Annually the first investor earned 12.4 percent and the second earned 10.4 percent, a mere 2 percent advantage with perfect timing, before transaction costs and taxation. Market timing does not work, time in the market does. Don't panic, the secret to owning equities is not getting scared out of them.
- 3) Behave your way to wealth. From 1984 thru 2002 (inclusive), which includes the greatest bull market and the worst bear market since WWII, the average equity mutual fund earned 9.6 percent (dividends reinvested). During the same period the average equity mutual fund investor earned a paltry 2.7 percent. Why such a huge difference? Sometime, somewhere, the investor made the BIG mistake, making behavioral decisions from which investment returns could never recover. One way to behave your way to wealth is to hire an advisor who, if nothing else, prevents an investor from making the BIG mistake throughout life expectancy.

Predictions, market timing, speculating when you think you are investing, panic and euphoria are all what Murray calls BIG mistakes. Patience, discipline, and faith in the future are the ingredients to long-term wealth accumulation. Murray writes with a sense of humor and a folksy mannerism. The book is a pretty quick read and easy to understand. If you are interested in obtaining a copy of this book please contact our office.