Pocket Passers and Savvy Scramblers

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The Investments You Choose are Far Less Important than Your Behavior While Holding Those Investments

A friend confided to me recently that while he has been adding money to his 401(k) account regularly and receiving his company's generous contribution match, he has not looked at his account or reviewed his holdings in five years. He knows that he is invested in a variety of equity mutual funds but does not remember which ones. He sheepishly asked if he has made a mistake by not reviewing the market and his holdings regularly, and what he should do now to rectify his grave error of inattention.

I assured him that if he is making regular additions to his account, and new contributions were being invested in the equity funds automatically, his lack of attention to the growth of his plan was actually a very positive thing. Inattention to a thoughtful wealth plan is a far better path to take than to be constantly reviewing, adjusting and worrying about the account. A 401(k) is a long-term investment fund, and the investments do not require our constant attention, like a child, a plant or a pet does.

The secret to successful wealth building is very simple. It's not what you specifically invest in that is important. It is how steadfast you are in staying on course with your plan over a long period of time. If your plan is to invest your 401(k) contributions in low-cost equity index funds, that makes sense. Or, you could choose to only buy stocks in the health care and consumer staples sectors, as these sectors can ride out a recession better than broad-market exposure. That sounds fine too. You may decide to buy a mix of stock and bond mutual funds and reinvest all income. Good, go for it. Or you may hire an experienced financial advisor to create an asset allocation plan for you and then invest accordingly. That sounds smart as well.

But for the long-term success of any plan, the far more important factor than the details of the financial plan's investments is one's willingness and ability to stick with the plan through thick and thin. Through strong markets and corrections. And while enduring constant negative noise, both from *CNBC* and your brother-in-law spouting world-ending nonsense at Thanksgiving dinner.

In the NFL, many quarterbacks can drop back and complete a pass from a "clean pocket." But great quarterbacks only get to prove their mettle when the pocket gets overrun with defenders and the passer must scramble and run for his life. What type of investor will you be in the throes of a market correction, when you feel like you are running for your financial life? Will you be like Jay Cutler, who frequently makes terrible, game-changing decisions when flushed out of the pocket? Or will you be steady and thoughtful like Aaron Rodgers? Rodgers usually makes great decisions while under pressure and stress, with a confident, high-percentage pass, or by throwing the ball out of bounds to live another day and make another play.

Like a clean pocket, it may be easy to navigate the equity market these days with confidence, after enjoying a market rise of nine years in a row. However, the stock market will correct at some point, and investors will see paper losses and feel pain. Our economy will eventually slow and go through a recession, as these slowdowns happen at least once a decade. Or there could be a political scandal that roils the markets, an armed conflict with another country or a crippling trade war.

When these negative events will happen is not the question. How an investor behaves in these tough times is the factor that will make the difference between long-term investing success or failure. All the smart portfolio and investing decisions that are made along the way can easily be undone if an investor lacks both patience and discipline while the markets are under temporary stress. What behavioral part will you play in your own investing success or failure?

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