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INVESTMENT ADVISORS

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THE PATIENT & THE PHYSICIAN

A patient goes to a physician with the complaint that he does not have as much wind and energy as do his friends; he is also concerned because many members of his family, when they reached his age, have had heart attacks.

The physician diagnoses the patient and discovers that he has high blood pressure and high cholesterol. The physician also learns that the patient is a chain smoker, eats bacon and eggs for breakfast every morning, and never gets any exercise.

The physician explains to the patient that he can give him pills to help bring down his blood pressure and cholesterol, but that 90% of the good he can achieve from his visit would be a decision to modify his lifestyle. The medical evidence is overwhelming, the physician says, that, if the patient will give up smoking, stop eating fatty foods, and get some exercise, he will have considerably more wind and energy and will extend his life expectancy.

The physician then explains how smoking destroys the cells in the lungs that carry oxygen, how fatty foods clog the arteries, and how exercise expands the capacity of the heart and blood vessels.

In concluding the visit, the physician emphasizes that most of what can be achieved in improving the patient's health does not even require the ongoing services of a physician. It requires little more than common sense and self-discipline. The physician can help fine-tune the process with medication, and he can help the patient monitor his progress but, in the last analysis, most of what is achievable must be accomplished by the patient's curtailing those things in his everyday life that hurt him and emphasizing those things that can help him.

THE INVESTOR & THE FINANCIAL ADVISOR

An investor goes to a financial advisor with the complaint that his portfolio is not performing as well as his friends' portfolios; he is also concerned that some members of his family, when they had reached retirement age, had not had sufficient savings to retire comfortably.

The financial advisor analyzes the investor's portfolio and discovers that it has, indeed, been underperforming the markets in which it is invested. The advisor further observes that the investor owns mutual funds, deferred annuities, and low-quality securities. He has used "past performance" as his primary criterion for selecting mutual funds, "tax deferral" as his motivation for buying deferred annuities, and "discounts from former highs" as his basis for selecting common stocks.

The advisor explains to the investor that he can give him minor suggestions to help upgrade the quality and improve the performance of his portfolio, but that 90% of the good he can achieve from his visit would be a decision to modify his investment habits dramatically. The statistical evidence is overwhelming, the advisor says, that, if the investor will redeem his mutual funds and own his securities directly, terminate his deferred annuity and substitute "maximizing after-tax return" for "deferring taxes" as an investment goal, and invest for quality and growth instead of looking for "bargains," he will probably enhance his investment performance considerably and also leave himself far less vulnerable to calamity in a tumultuous securities market.

The advisor then explains how mutual funds surreptitiously siphon off up to half or more of the returns they generate, how no amount of tax deferral can make up for the shortcomings of a flawed investment vehicle, and how companies selling at depressed prices are more apt go bankrupt.

In concluding the visit, the advisor emphasizes that most of what can be achieved in improving the investor's financial health does not necessarily require the ongoing services of an advisor. It requires little more than common sense and self-discipline. The financial advisor can help fine-tune the process with occasional suggestions, and he can help the investor monitor his progress but, in the last analysis, most of what is achievable must be accomplished by the investor's curtailing those investment habits that hurt him and emphasizing those that can help him.

CONCLUSION

If your situation resembles that of our hypothetical patient, we suggest that you give your physician a call. If your situation resembles that of our hypothetical investor, we hope that you will give the Dows a call.

Clifford G. Dow, ***CFA, CFP®, CHFC*** **DW2/DWB0016**