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Seasonal Musings

February 2007

Musings In This Issue

The Only Thing We Have to Fear...

Harvard for Haves and Have-Nots

It's in the Hole!!!

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Hi Paul,

Welcome to another issue of "Seasonal Musings", the online newsletter from Five Seasons Financial Planning (FSFP). In this issue, we'll be discussing the emotional side of investing and planning for college expenses with an open mind. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

**The Only Thing We Have to Fear...
Is How We Respond To It**

In the last issue, we discussed the relatively new field of behavioral finance and how it attempts to explain investors' self-destructive behavior. As an indication of just how costly it is to react emotionally to market gyrations, consider a study published last year by Dalbar, an independent research group. They found that equity mutual



fund investors between 1986 and 2005 sacrificed as much as 77% of the returns generated by the stock markets by chasing performance at the highs and panicking at the lows.

By studying mutual fund inflows and outflows during this time, Dalbar determined that the average stock mutual fund investor actually earned just 3.9% per year. By contrast, an investor who bought the S&P 500 and held it through thick and thin would have earned almost 12% per year. That could be the difference between a carefree retirement and one spent greeting at Walmart (not that there's anything wrong with working at Walmart).

The authors of the study concluded that it was investors' fear of losses that caused them to become most emotionally involved and so resulted in the most damaging behavior. I still encounter people who bailed out of stocks when the bubble burst and haven't been able to bear the thought of investing since.

The key to overcoming this costly fear is to be prepared **in advance**:

1. Have a diversified, balanced portfolio that reflects your individual risk tolerance and time horizon.
2. Maintain that balance by rebalancing periodically.
3. Set realistic expectations, including the knowledge that stocks historically fall one year out of every three or four.
4. Be confident in the knowledge that time is an ally when investing; there have been very, very few 10- year periods in market history when stocks have declined.
5. Recognize that we as stock market investors are compensated for enduring stock market volatility, for undertaking the risk that we might experience negative returns during certain time periods.

Human nature will never change - stock market declines will always be frightening. By being prepared in advance and by having an experienced professional on your side, you can keep that fear from costing you your financial dreams.

Harvard for Haves and Have-Nots

One of the benefits of being a member of NAPFA, the National Association of Personal Financial Advisors, is that we have a very active intranet in which members can support each other with expertise and helpful resources. After all, we Fee-Only independent advisors need to stick together since we number less than a thousand nationwide out of a total of 650,000 or so "financial professionals".

So with thanks to a fellow member on the East Coast, here's a [link](#) to an article in the Harvard University Gazette on the possibility of sending your kids to Harvard for free. It just goes to show that it's best not to plan to

finance your kids' educations with any pre-conceived notions. Whether they'll be wearing Crimson at Harvard or at the U, there is usually a strategy or an opportunity to reduce that financial burden regardless of your income level.

"Two-thirds of Harvard students receive financial aid, and the average grant award for next year is expected to be more than \$33,000, or 70 percent of the total cost of attendance."

It's in the Hole!!!

On a personal note, I'd like to congratulate my 76- year old Dad for scoring his first ever hole-in-one.

Five Seasons Financial Planning is a Fee-Only financial planning and investment advisory firm registered with the state of Utah. Five Seasons offers financial planning services on an hourly basis, as well as discretionary investment management. To view past issues of "Seasonal Musings", click [here](#).

One of the benefits of working with a Fee-Only investment advisory firm is full disclosure. To receive a copy of our Form ADV, which details a variety of information about Five Seasons, or our Privacy Policy, please use the contact information below.

Best wishes,

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