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THE SLATER FINANCIAL GROUP

Building sustainable wealth

SFG's 10 principle rules for long-term wealth creation

"Things that are simple are easy, while most things that are complex are hard. Investing is one of those rare phenomena that is very simple and hard at once."

1. **Long-term investment success comes from continuously acting on a plan, and investment failure comes from continually reacting to current economic and market events.**
   - If you're continuously reacting to current events, you'll forever be knocked off course by events and circumstances you didn't foresee.
2. **The most significant long-term risk for an investor is the permanent erosion of money's purchasing power due to inflation and taxes.**
   - For the purpose of this exercise, we will reference the S&P 500 Index as an example of a diversified portfolio of enduring high-quality public companies.
   - The prevailing thought is that temporary declines of a diversified portfolio of enduring high-quality public companies are the biggest risk, but as shown in the Andex Chart, we observe that for the better part of a century, a broadly diversified portfolio of enduring high-quality public companies has compounded at 10% annually.
   - Lending money to those companies (bonds) over the same time period has generated an average compound return of 6% inflation during this same period, compounded at 3% (all these numbers have been very gently rounded).
3. **Historically, being a shareholder has rewarded investors more extravagantly than bondholders primarily because of the companies' earnings growth.**
   - Over the last 70, 50 and 25 years, the average yearly earnings growth of the S&P 500 Index has been 14% per year, yearly dividend growth has been approximately 6% per year, and inflation has been approximately 3% per year (all these numbers have been gently rounded). Source: https://politicalcalculations.blogspot.com/2006/12/sp-500-at-your-fingertips.html#.X4C3YXIKiUk
4. **Equity volatility is the reason for the premium returns and is simply the efficient market's way of pricing in adequate compensation for tolerating temporary unpredictability along the long-term permanent uptrend line as referenced by the Andex Chart).**
   - Volatility is **not** the risk of permanent loss of capital in a broadly diversified basket of publicly traded enduring successful businesses (example: S&P 500), as we observed that the premium return of 10% compounding annually has existed for almost a century.

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5. **If you are going to invest in a broadly diversified basket of publicly traded enduring successful businesses, here is what you should expect.**
   - Over the last extremely eventful 50+ years (since 1970), the S&P 500 Index has experienced annual intra-year declines of 14% on average from peak to trough. See Link
   - One year in five, the annual decline has averaged slightly more than twice that (approximately 30%).
   - Ignoring dividends, shareholders have experienced positive returns in 37 of those 50 years.
6. **The most vexing problem of the market's frequent temporary declines is that neither their peak nor their trough can be predicted; therefore, they can't be timed.**
   - Uncertainty in the markets and the world is the only certainty as we constantly move from one uncertainty to another.
7. **There is no known method of getting out of the market and back in again opportunely, such that one consistently achieves an excess return over a buy-and-hold investor.**
   - Nobel laureate William Sharpe conducted a study that concluded that market timers had to be right 82% of the time to match the returns realized by buy-and-hold investors.
   - The only way to achieve the full permanent advance of a diversified basket of publicly traded enduring successful businesses is to be willing to ride out their temporary declines. See Link
8. **Any investment that tries to suppress volatility will usually suppress returns.**
9. **Untreated human nature will always fail as an investor.**
   - Financial journalism panders to human nature's worst instincts, namely fear of loss and fear of missing out.
   - Research has shown that the psychological bias of loss aversion makes losing money feel twice as bad as making the same amount of money.
   - As a result of trying to avoid negative feelings, many poor investment decisions are made.
10. **Speak to your Advisor before making market-related financial decisions.**
    - One of our principal roles as advisors during periods when human emotions are elevated is to coach people to avoid making decisions that could hurt them long-term financially.
    - One of the core purposes of our advisory services is to help save people from themselves.
    - We accomplish this by maintaining our faith in the fact that optimism is the only long-term realism and that the most innovative, dynamic, transparent, enduring quality companies and economies will continue to adapt opportunistically and rise and rise (referencing the Andex Chart as proof of fact).

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