Don’t Get Kicked Out of the Game

One of the biggest mistakes an investor can make is to imagine that the market will perform the same way year after year. Last year’s winners are often this year’s losers. I warned investors against this mistake in July 1992, writing:

> *How many investors—not you I hope—buy mutual funds keyed to recent performance ratings? These are usually the funds not to buy. Have you ever heard of Frank Russell Co.? These folk do a really good job of researching vital investment info. In a recent Pension & Investments article, the following item was of vital importance to you. A new study by the Frank Russell Co. has confirmed a long-held tenet of the investment industry: It’s useless to select a money manager based on past performance. In fact, the study found, there is no satisfactorily significant relationship between past and future performance.*
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> *Not only will you not find value in looking at past performance as a predictor of future results, you will not be able to deal with the high turnover, high taxes, anti-compounding issue. And just how important is compounding? Fortune magazine in its special investment strategy article “A Low-Risk Path to Profits” noted the views of Joe Rosenberg of Lowes Corp. “Joseph Rosenberg, who manages more than $1 billion for Lowes Corp., believes so fervently in the awesome power of compounding that he carries a compound interest table in his pocket at all times. His faith is simple and absolute.” Says Joe, “It is the most important thing in investing. It’s foolish to undermine the power of compounding by taking big risks that could kick you out of the game.” Joe is dead on the money here.*

Joe was right. You don’t want to get kicked out of the game by making a bad decision. Don’t buy last year’s winners hoping for a repeat. Work to mitigate risk in your portfolio and allow the awesome power of compounding to do the rest.