

How Do You Know If Your Investment Plan Is Working?

It's Not About Beating the Market

Most people check their investment plan the same way they check a scale after a holiday weekend. They look at the number, feel something, and either congratulate themselves or start worrying. Up is good. Down is bad. Move on.

But a number on a screen doesn't tell you whether your plan is working. It tells you what the market did recently. Those are two very different things.

The Wrong Scorecard

The instinct is to measure your portfolio against whatever is winning. The S&P 500 had a great year, and yours didn't keep up? A friend's tech-heavy account doubled? It doesn't matter. They all follow their own rules.

Every index decides what gets in, how it's weighted, how far it drifts, and when it changes. Those rules can quietly produce something different from the asset class you assume they own. They don't follow diversification rules that minimize risk. The definitions of what gets included start with common characteristics. That's not diversification. That's the definition of concentrated risk. Even then, the concentration becomes more so as broad exposure tilts toward a handful of sectors without anyone making a conscious decision. Look at today's poster child of concentrated risk, the S&P 500, where the seven largest companies make up over a third of the index. (If that sounds like the concentration risk we wrote about in our April newsletter, it should.)

Markets move in cycles that take years to play out. Judging your plan over a quarter or even a year is like reading the first chapter of a book and deciding how it ends.

None of it was constructed for what you need, when you'll need it, or what will cause you to make a decision you'll regret.

What "Working" Actually Looks Like

So, what do we look for? After helping you draft an investment plan that provides what you need when you need it, we look for an approach we can rely on to deliver what we expect. Over the years we've been rewarded by following the research of leading academics in the field of investment finance. It's peer-reviewed, grounded in sound rules of how investment finance works, and supported by 45 years of evidence over a global array of asset classes.

Your portfolio stays aligned with your goals, not with headlines. When one asset class surges, re-balancing trims it back. When another lags, rebalancing adds to it. You're buying low and selling high without needing to predict anything. That's not passive. That's disciplined.

Your risk is distributed across asset classes that don't move in lockstep. When U.S. large caps stumble, international or small value equities often hold their ground, or vice versa. You don't need every piece to win every quarter. You need the pieces to take turns.

You aren't reacting. The plan anticipated that markets would decline, sometimes sharply. It didn't assume they'd only go up. If a 20 percent drop changes nothing about your strategy, that's not indifference. That's a plan that was built for the world as it actually works.

The Real Danger

The biggest threat to a working plan isn't a bad market or a good one. It's losing faith. The media will convince you that you're falling short when the market rises, and that you're facing disaster when the next crash is imminent. Both messages are designed to make you act. And acting on them is almost always the wrong move.

Every market cycle produces a group of investors who abandoned their plan at the top and locked in losses at the bottom. Not because they panicked in the moment, but because they'd slowly drifted away from their structure during the good times, so when the downturn came, they had nothing to hold onto.

The Question Worth Asking

So, the next time you check in on your portfolio, skip the question you usually ask. Don't ask "How much did I make?" Ask instead: "Is my portfolio still built for my life?"

If the answer is yes, the plan is working. Even when it doesn't feel like it. Especially when it doesn't feel like it.

If you know someone who's been second-guessing their plan or measuring it against a scorecard that was never built for them, we'd welcome the conversation.



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