KEMPER CAPITAL MANAGEMENT LLC

Market Portfolio
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Advisor Views

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A feature from **Kemper Capital Management LLC**, *Advisor Views* offers timely investment news and market updates designed to keep you informed, while enhancing your overall investment experience.

To the Market Watchers of the World

For those of you who partake in the age old pastime of watching the market, this column is for you. Given that this guilty pleasure has persisted for decades, let's take this opportunity to examine why people are so infatuated with what the pundits and ticker tape have to tell them. How do they rationalize hours, days, and weeks of what I believe is wasted time watching a fast moving, multi-colored, streaming banner that flies across the bottom of the TV screen, while they simultaneously try to dissect the latest and greatest advice from their favorite CNBC personality?

To understand our constant infatuation with what's happening in the markets, we must first analyze some basic human traits, as in my opinion, many individuals are just not well suited to be good investors. Furthermore, I would suggest that the biggest enemies of many investors are they themselves.

Buy low, sell high! There's a novel idea. Who hasn't heard that advice? Aside from pointing out the obvious difficulty in accomplishing this from a market timing perspective, let's take a high level look at why I believe many investors consistently struggle with making such rational decisions.

If you were to divide the decision making portion of the brain into two parts, the prefrontal cortex and the limbic system, you would find two drastically different functionalities that, in their own right, are designed to protect us in different ways. The prefrontal cortex represents rational, unemotional decision making and focuses on logic to make long term decisions. The limbic system, more short term and emotion driven, is best suited when the need occurs to make a split second decision, such as slamming on your brakes before rear-ending the car in front of you. Unfortunately, this side of the brain often influences financial decisions. Because of our emotional attachment to hard earned money, I believe we are unable to separate long term logic from short term noise. When decisions are made in this manner, investors are likely to suffer.

A widely known financial industry study done by DALBAR, Inc. simplifies this phenomenon. The average equity investor over the last 20 years has achieved a 3.2% annualized rate of return vs. the S&P 500 which averaged over 8%.[1] The average investors buy high and sell low because of the emotional tendency to sell investments that they feel are underperforming and then replace them with investments that have done well of late.

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When committing money to the financial markets, most investors are investing for the long term; not a mere five, 10 or even 20 years, but rather for their entire lives. Conventional wisdom suggests that as a person ages, the debt to equity ratio in his portfolio should change. So ask yourself, how does an individual with 20 years until retirement and 50% of his portfolio in equities benefit by watching the markets go up and down each day? Similarly, why would an individual choose to watch the markets day in and day out when she has five years until retirement and only 10% of her portfolio invested in equities? In both cases, assuming the portfolio allocations have been made based on each individual's unique risk tolerance and time horizon, they should be suitable, and with long term goals in mind. In my view, it matters not what the market did today or yesterday, last week, last month or even last year. I believe that long term success is more often than not the result of long term exposure to the capital markets.

With that said, it's understandable that maintaining a rational approach to investing can be difficult. Over the last year we have seen the Dow Jones Industrial Average fluctuate from under 10,000 to above 11,000. Stomaching the roller coaster ride is not for the faint of heart. I believe that is why many of the most successful investors are those who work with a financial advisor as they can provide investors with the discipline they may lack. Advisors may help investors to stay focused on the long-term, while ignoring the noise that could negatively affect their ability to make sound decisions.

While market watching can be fun and exciting, as well as informative, for others, it can be quite nerve wracking. Isn't there something that you would rather be doing with your time?

[1] "Quantitative Analysis of Investor Behavior, 2010," DALBAR, Inc. www.dalbar.com. The S&P 500 represents the 500 leading U.S. companies, approximately 80% of the total U.S. market capitalization.

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