

Client's Corner

Simple Beats Complex—If Only Because You Understand It Better

AS THE EQUITY MARKETS CONTINUE MAKING NEW all-time highs, we find ourselves exposed to all sorts of new products, ideas and approaches that purport to offer “a better way.”

Tax loss strategies designed to make taxes (if not dividends themselves) go away. Leveraged and inverse ETFs. New and superior stock selection methods. The creation of superior returns through writing options. As a class: the shiny thing.

It's just that time in the cycle. The time, that is, when the tried and true methods of compounding capital (at nearly 16% since the market bottom in March 2009) and building dividend income at a significant premium to inflation begin to seem as if we're somehow missing something. That there's incremental return to be easily had if we just reach out and grab it—without, somewhere, an additional price to be paid.

It's a very attractive notion, and in practice it may often leave investors chasing their tails. This, then, becomes an excellent time to make very sure you understand what you own and why you own it.

Let's go back to first principles. You and your financial advisor have undoubtedly created a long-term investment portfolio based on your family's most cherished financial goals. You quantified those goals and rendered them into a plan: what amounts of money would you need to accumulate—in what asset classes—to arrive at your goals in the time allotted, given historic rates of return.

Now I invite you to take one more loving look at that carefully crafted portfolio, while I disclose to you one man's opinion. To wit: given your goals, and given your plan, you very probably have the right portfolio *for you*.

Note: not a portfolio designed to capture all of the exceptional returns being generated in AI. Not a portfolio that participates in the market's advances while insulating you

from declines (for none such exists). Not a portfolio that will beat a benchmark this year or any year. Those variables and many more like them never entered in to the discussion when you and your advisor built your portfolio, simply because *they had nothing to do with your goals*. (Indeed, “outperformance” isn't even a financial goal!)

Where a great many people go seriously wrong is they begin comparing their portfolios with, in effect, a lot of other people's portfolios—people they don't even know, with goals and time horizons and risk profiles wildly different from theirs.

On behalf of your financial advisor, I ask you to suppose that what anybody else's portfolio is returning at any given moment is perfectly irrelevant. What matters is that your portfolio is in the process of achieving your goals. This should strike you as no more than plain common sense. The issue, of course, is that as markets rise—never mind rocket, as they've been doing lately—common sense may be in short supply.

The last great reason to stay focused on the harmony between your plan and your portfolio is that, when setbacks come—as they do, and will—you'll be able to say, with a certain amount of conviction, “Yes, in a very real sense we planned for this. We made a philosophical decision that—since we couldn't ever time the markets—the only way to capture their full long-term return would be to ride out their not infrequent declines.”

When the shiny things start flashing all around you, you should find a good deal of comfort in the knowledge that your portfolio is well suited to your plan. And that your best chance of success is simply following that plan, looking neither to the right nor the left.

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