



Capital Management, LLC

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By Steven M. Sheldon, CFA

About SMS Capital Management

SMS provides investment management services to individual investors desiring to preserve and build long-term wealth. As a fee-based firm, SMS has an independent, objective and sound approach to portfolio management. The firm is a Registered Investment Adviser.



About the Founder

Steven Sheldon has more than ten years of professional experience analyzing and managing investments. Prior to founding SMS, Mr. Sheldon worked as a senior member of a corporate principal investments group where he managed a \$100 million portfolio. Mr. Sheldon has an MBA from Tulane University and a BBA from The University of Texas. In addition, he is a CFA charterholder and a member of both the Association for Investment Management and Research (AIMR) and the Houston Society of Financial Analysts (HSFA).

Do You Have *Portfolio Paralysis Syndrome*?

If you were a do-it-yourself investor heavily invested in stocks over the past few years, you've probably conceded defeat, acknowledging that the bull market of the nineties was more responsible for your past success than your innate stock picking ability.

Or maybe you relied heavily on the so-called "expert advice" from a Wall Street brokerage firm? Unfortunately, you've probably found out the hard way that those hot growth stocks and tech funds your broker turned you on to were disastrous investments. Adding insult to injury, most of these over-hyped investments may still appear on your monthly statements because your broker never bothered to monitor your account or take corrective action. That same broker may be calling you now to pitch "stable value" and "guaranteed return" funds as a "great way to preserve the principal you have left."

Does the thought of re-evaluating your portfolio or dealing with your current broker cause you intense anxiety? Or does your portfolio resemble that of a person's about to skip town - all cash - ever since the day you sold everything in a frenzied panic? Has the slow economy, allure of a recently rising stock market, and record low interest rates got your head spinning?

Take Heart: YOU ARE NOT ALONE. You may be suffering from *PORTFOLIO PARALYSIS SYNDROME* (PPS), a neurological condition affecting an investor's psyche. Essentially, investors become mentally paralyzed and incapacitated with regard to making investment decisions. As a result, they leave their portfolios frozen in their current state, no matter what consequences.

Avoiding The Problem is Not a Solution

There's no question: These are challenging times. Stuffing unopened portfolio statements in a drawer or selling everything and hoarding all your money in cash, however, is not the way to go.

You've probably heard plenty lately about the merits of building a diversified portfolio. Allocating funds across multiple asset classes and investment styles sounds good in theory, but PPS sufferers may chalk diversification up as something they wished they had done long ago, and as too late to start now.



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My response to this rationale is simple: It's never too late to start and the sooner, the better.

Don't stick with an inherently bad plan and hope it turns into a good one. A speculative portfolio stays speculative. There is no self-correcting mechanism! Some form of action is required.

Portfolios comprised mostly of highly volatile investments may have an occasional run (as in the current case with both technology and biotech stocks leading the market in 2003), but may also give back gains just as quickly. Regardless, they WILL UNLIKELY make back the 80% or so that you already lost. For those of you approaching retirement, leaving your portfolio "as is" and betting almost exclusively on overly risky asset classes is a gamble you can't afford to take.

As for holding an ultra-conservative all cash portfolio until you feel comfortable enough to invest again, you will likely fall victim to the law of inertia. By the time you finally feel compelled to act, you will have already missed the boat and make the wrong move at the wrong time (like the day you sold everything in the first place). In fact, according to data from Fidelity Management and Research Company **if you missed the 30 best trading days from 1980 to 2000, a \$10,000 investment in stocks would be worth \$58,341, vs. the \$185,080 that would likely have resulted from remaining invested for 20 years.** Staying completely out of the market simply does not make sense for most long-term investors.

What to Do Now?

The best thing you can do now is to understand and evaluate your current situation, then take necessary corrective action.

For those of you dedicated to the do-it-yourself approach, this involves assessing all your current holdings and figuring out an appropriate asset allocation. Some mutual fund companies like Vanguard (www.vanguard.com) and T. Rowe Price (www.troweprice.com) have models on their websites that can help you figure out which asset classes are best suited for you. In addition, other companies like Morningstar (www.morningstar.com) have relatively inexpensive tools that can help you build and manage the risk of a diversified portfolio.

Others may be more comfortable working with an experienced investment professional. When conducting your research, make sure you find someone qualified who will offer you truly independent and objective advice. Most of the time,



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stockbrokers are *NOT* independent. An inherent conflict of interest exists since stockbrokers get compensated from commissions on stocks or funds they sell whether or not they are right for you. They really are salesmen for their companies' products (although they now use the name financial consultant and adviser). Beware of the broker or financial adviser that wants to sell you the Investment Du Jour (a few years ago it was tech stocks, today it's stable value, guaranteed principal, and hedge funds)!

How Can SMS Help?

SMS Capital Management, LLC works with each client to develop an appropriate investment plan that takes into account their investment objectives, time horizon, and tolerance for risk, as well as any other factors impacting their particular situation. By having an investment plan in place for each client, SMS avoids Portfolio Paralysis Syndrome at moments of both market uncertainty and exuberance.

As an independent, fee-based investment management firm, SMS objectively builds and manages its clients' portfolios. We have no financial interest in putting our clients in investments that do not further their individual best interests.