"Batting leadoff, McCutchen, batting second, McCutchen, batting in the third spot, McCutchen..."

By: David Jeter, CFP® *April 2016*

The first quarter of the year is behind us, and investors went for quite a ride in three months. In baseball parlance, in January and February, we couldn't buy a hit, while in March, we went on a nice hitting streak and put the ball in play every day.

As you can see, baseball season has begun, and I am excited about the early success of my hometown Tigers and my adopted town Pirates. Comments made by two clients last week got me thinking about a baseball strategy that may seem plausible, but would certainly fail. The experiment would be to field your team with only your single best player. Not nine of them, but one.

For the Pirates, this strategy would be employed with Andrew McCutchen. He is athletic, strong, fast, and smart. He is considered by many around the league in the top five over the last few years. But, if he is the only fielder, trouble would come early. How could he field a grounder and throw to himself? How could he cover the left side of the outfield and chase down a shot to right? The ball would eventually end up in a place where he wasn't. As for batting, in any one single game this actually might be preferred. But over the course of a season, he would get worn down, beat up, and would eventually falter.

The team with one player trying to play all positions will not work over a season. Even if we adjust this idea to one 'type' of player, it still won't work. If we had nine solid left fielders or nine great catchers, we would eventually fail.

Baseball and Diversification

There is not a period of time that goes by when one cannot find a concern that makes them nervous about the investment environment. Right now, we can name some of the concerns; oil's adventure in the last year, China's economic struggles, signs of slowing economic growth at home, projections of disappointing earnings coming, and lest we forget, the Presidential campaigns. I could name more, but we could always name more. (We are pounded with 'concerning stuff' by news reports every day. Financial news is no different than local news, political news, or the weather.)

> *"In baseball, covering all positions in the field is the best way to defend against the uncertainty of where the ball may be hit. For investing, diversifying is the best way to reduce risk in an uncertain world."*

One of the investing concepts we adhere to is diversification. The rationale behind diversification is that a variety of investments will yield a higher return and pose lower risk over the long-term than focusing on assets in one or a few types of investments. This is done by reducing unsystematic risk that is inherent in any one company or industry.

A baseball team, in order to be successful, needs players covering left, center, and right field. They need fielders at the corners and up the middle. I believe long-term successful investing is similar in its need for 'field coverage.' In my analogy, U.S. large company stocks are your pitcher; U.S. small company stocks are your shortstop; U.S. investment grade corporate bonds are your catcher; foreign large companies are your center fielder, and so on. By covering all positions, you are reducing the risk inherent in leaving some part of the field open for a ball to be hit there.

Analytics and Perspective

A season is 162 games. Each game has 9 innings. That's 1,458 innings in a year, and over the course of 30 years, you would experience 43,740 innings. The team president who feels that every inning deserves a reaction, will make decisions very differently than one who expands their perspective to 1,458 innings or 43,740.

Analysis can give baseball professionals and investors great tools for perspective and decision-making. In baseball, on-base percentage can be more important than batting average for many batters, and a measurement of Walks/Hits per Innings Pitched (WHIP) can be valuable for pitchers.

For investors, it should be valuable to know that since 1946, the S&P 500 Index has declined by 5% on average every 5 months, by 10% every 1¼ years, and by 15% every 3¼ years. If you kept this idea in the front of your mind, you would likely react differently when a 10% correction comes. It feels like it never happens, but the fact is, it happens on average almost yearly. [1]

Over the course of 162 games, and over the course of a market cycle, ALL positions will be important. A good team leader, whether the president or manager, will be concerned if his teams gets in a slump, but he won't panic. They will stick with their process. They will stick with their approach because even though they don't know exactly when a rough patch will end, they know it will. They won't be opposed to making changes, but the changes will have season-long perspective, not a one game reaction.

Cont.

In baseball, covering all positions in the field is the best way to defend against the uncertainty of where the ball may be hit. For investing, diversifying is the best way to reduce risk in an uncertain world.

Your mission as the president of your own personal financial baseball team is to make management decisions for a career, and even a season, but not a single game. Your financial goals happen over decades, and your outlook for managing your assets needs to match that time span.

My mission as your advisor is to keep your long-term goals and time frame at the forefront of your decision-making paradigm. Even when you want to tell me about a late inning collapse of your pitcher or a 10 game loss streak of your team, I am going to talk about the rest of the season and keeping your eye on a shot at the playoffs.

If you would like to discuss the subject matter in this article or any question related to your financial planning, please contact David Jeter at djeter@alleghenyfinancial.com or 412.536.8012.

[1]S&P 500 Index is an unmanaged index of 500 stocks chosen for market cap and other factors. Past results are not predictive of results in future periods.