About indexing your investments

There are many strategies for making investments. One strategy that you might consider is to pick investments called indexed funds. You can buy mutual funds or exchange traded funds that follow, and try to produce the same results, as a given market index. Buying a mutual fund that tracks the S&P 500 would be an example.

Why be happy with average?

The common thinking in choosing an index strategy is that you can't beat the market. So, you should be happy to have a return equal to the market average. That works if you are satisfied with the market average. You will want to go up at exactly the rate that the market goes up, and you will be OK to go down at the same rate as the market goes down.

Consider putting together a baseball team that has a player at every position who hits exactly at the average of all the players at that position in the league. If you have everyone hitting at his average for the league, your team might do pretty well; maybe finish near the midpoint in the league standings. No year-end excitement here, but no shame either. They gave us a good show. On the one hand, that sounds pretty good.

But suppose you have eight players hitting at their averages, and you have an opportunity to add one superstar at third base. This player consistently outperforms, gets hits in important situations, and drives in a lot of runs. You have to trade an average player to get him. But you add a player who really makes a difference.

Now that makes even more sense. With one player doing better than the average, everyday player, your team might just finish at the top of the league.

Don't be rigid in your investment strategy

There is a time for index investing, and there is a time for going outside that single strategy. Consider using index investing in areas where it has proved extremely difficult to outperform the market average. However, there are areas of the investment market that are not quite that efficient. There are places where active investment managers have done better than average. When we see that opportunity, we depart from the index method and sign on a manager who has performed above average.

Use a broad field of investment funds

We don't believe that an investor should limit the choices from which to make investment decisions. Some investment managers use only one family of funds, either their own company's funds or a program that they single-mindedly promote. We find fund choices in several different families of funds. Once again, the baseball team analogy applies. Your team is not going to get all of its baseball players from one minor league system or even one baseball-rich country. The team is going to go where the best player is available. We have the same philosophy in picking our investment fund managers.

Stay involved with your investments

Often an investment manager who picks a balance of investments based on index funds also tends to stay with that investment mix, without making many changes over time. Going back to our baseball team analogy, that is like having a coach who doesn't make changes in the lineup based on the game situation. If you are batting against a pitcher who has a record of poor results against a left-handed batter, it makes sense to put in a substitute to take advantage of that situation. In the same manner, we continue to look at the investment markets. Where we see some strong likelihood of a change in direction in the markets, we make changes in our investment lineup. We invest long term. We don't make changes on a short-term shift, but we do take into account where the long-term markets seem to be going. We make changes that are appropriate to help us outperform the average market results.

Any developments occurring after January 1, 2014, are not reflected in this article.