Look Forward, Not Back

The other day I got some disappointing news about a reliable old car we bought years ago when our twin boys started driving. Like most of the vehicles we’ve owned, this one aged gracefully...to a point. That point was last April when an oil leak forced a decision. Do we make an investment in this car that we know so well or do we say enough is enough? For a number of reasons, and some wishful thinking, we made the investment. Unfortunately the two more years of car life we hoped for lasted just six months. Now enough is enough.

It isn’t always so easy to make a decision on investment and utility, whether it has to do with a car, a bond, or a long-followed strategy. Just as with this car that saw a couple of sons through high school and college, it’s easy to look back and rationalize a decision to hold onto the familiar. With the car we made our investment decision based on past performance and dollars already invested. Instead we should have asked the question “what is the best thing for us to do right now?” No doubt, nostalgia and rationalization of what worked in the past led to the decision to keep that car running when we should have looked in another direction.

But it’s not just about cars. It’s about other decisions we make in life as well, including investment portfolio management decisions. One of the most difficult things in life is to move away from what has worked in the past and embrace the new. Now I’m not saying that history isn’t a phenomenal teacher. What I am saying is that it makes a whole lot of sense to analyze information at hand and make decisions based on what is best going forward. Even if it goes against what we thought was best before.

So whether it has to do with a car or with an investment portfolio (or a thousand other decisions in life) we should use the past as a guide, not a master. It’s not about how well the car, or the portfolio strategy, worked before. It’s not about what we may be losing or what we may be giving up. It’s about using accumulated knowledge, analyzing the facts and circumstances as they are right now, and making decisions based on what will make performance better from this point forward.

Not always an easy thing to do. But it sure can make life better.

— Allen Collins

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