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Eliminate Overcrowding in Your Portfolio

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I have lived in Florida for the last 25 years and I believed I was getting used to the level of crowds in Florida, but every year around winter it gets very busy.

People come from out of town to visit Florida, visit family and all the malls, shopping plazas and stores get very busy.

The roads get busy and everything seems overwhelming. In fact, it's not uncommon to hear complaints about how busy and how much traffic there is in Florida during the winter.

This year my family and I went to Manhattan between Christmas and New Year's. We stayed in the City. We saw several shows and we got around by cab, Uber and subway.

As we moved around the streets, we observed there was a lot of traffic. As we went into the malls, the stores, Bloomingdales, Macy's, etc., there were a lot of people. From this trip I have learned to never to complain about the high amount of traffic there is in Florida, compared to other parts of the world.

In looking at investing, we were told, as early investors, to invest in what we know. It's not uncommon for someone to say pick a company that you know and buy their stock; for example, buy Apple or buy some other company that makes sense for you because you know it, because you shop there.

For example, you may shop at Wal-Mart or even Costco. All these companies are publicly traded and they may be the right investment. However, what if your view is limited by your locale? What if your regional exposure causes you to invest poorly?

For example, while I was in New York, there's a very large Apple store in Manhattan. I anticipated the store to be crazy-busy, however, compared to other stores, it wasn't, but yet, if you look at my local mall, the Apple store is by far the busiest of stores.

If I was an investor, shopping or buying stock of what I know, the only place I would buy would be Apple. In the long-term, this might be a good run.

It is a very large company. They retain their earnings. They don't pay out large dividends. However, they are a growth company. In certain years, growth does well. In certain years, growth does not do well.

There are two ways of viewing this discussion, the first is that certain regions will have better 'individual' investors or the other view is to invest in all areas to not miss opportunity.

If your view is to expand your allocation then how do you change your view to make it so that you have exposure to a broader market? Should we all just be buying the indices and just calling it a day? Should we all just buy the S&P 500 SPY? Should we all just buy the world markets (e.g. Vanguard Total World Stock ETF (VT)), the ex-U.S. markets (e.g., Vanguard FTSE All World ex-US ETF (VEU)) and the iShares associated with those companies?

Long term, if we had, say 40 years of investing, it's probably a good idea to just invest in indexes. The younger the investor, the more you should have a broad index because over time, certain areas will do better than others, but if everything rises, everything goes up.

Some years you'll have one area going up and some years you'll have one area going down, but overall, over a long period of time, say a 30 or 40 year time horizon, you'll be fine.

However, most of us don't have 30 or 40 years of investing. Most of us are at or near retirement and we need to really preserve our capital, so how do you not get tricked by looking at the regional investor?

One method to use is to look at broader sectors, not just say the S&P 500, but look at the world markets. See what areas are doing well. Look at some of the developing countries and also some of the developed countries in Europe that may make and have better performance.

In the Presidential Trump period, certain areas should do better; areas that do better with less regulation, areas that do better with lower corporate tax rates and areas that do better in pro-business environments. All these areas make sense.

At some point, you'll see the areas as not being as popular over time. When that happens, you should think or consider diversifying your portfolio. The question is when to do that. The best time to do that is when things are at a low. How to tell if they're low? Look at the price/ earnings ratios.

Follow the stocks closely or work with somebody who can observe and look at all the different stocks and portfolios out there to make an informed decision. Overall, don't fall for regionalism because you might miss the bigger picture. Decide whether or not you want the forest or the trees.

Remember, plan today… protect tomorrow.

Until Next Time,

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