Business

It's still OK to be an optimist

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Market Pulse

One of my first Bonanza columns was "It's OK to be optimistic," written when investors were in a funk and had liquidated stock funds for three years straight.

Since, the S&P 500 has risen 80 percent, not counting dividends. Yes, it paid to be optimistic then. It will pay to be optimistic now.

For those with a long time frame, being optimistic is a no-brainer. Every market pullback, correction, bear market, etc. has always been followed by a move to new highs.

In fact, stocks have never delivered a negative real return over periods lasting 17 years or more.

Moreover, the returns over long periods are remarkably stable.

According to Jeremy Siegel's "Stocks For the Long Run," real returns on stocks over various time periods are about 6.5 percent: 6.7 percent per year from 1802 through 1870, 6.6 percent from 1871 through 1925, and 6.4 percent per year from 1926 through 2012.

The real return since World War II is also 6.4 percent. Insurance companies understand this, which is why they offer their "guaranteed" annuities to those who fear losses.

Unfortunately the record is lost on those who see the glass as half empty. They buy the doom-and-gloom books, sit in money-market funds convinced that the market is wrong, and prefer gold, which has a negative real return in half of the time periods shown above and doesn't pay a dividend.

Being an optimist not only pays on Wall Street, it pays in life. Research at Duke University found that optimistic people work harder, are happier, get paid more, and win at sports more regularly. They even live longer.

That doesn't mean we should just wear rose-colored glasses. There are problems: economic growth is near zero and wages are stagnant.

There are always problems. For those 60 and younger, however, it's important to know that there are 200 years of data suggesting a large portion of your portfolio should be in stocks, especially the more stable large-cap dividend payers.

For those over 60, own some higher yielding fixed-income instruments and preferreds in addition to stocks.

Investing is both a psychological and an intellectual challenge. In seeking an investment adviser, look for one that can balance fear and greed while maintaining an optimistic view.

Negatives are always well known. Successful advisers see what others don't. That's usually good news.

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