



CLEAR HARBOR

ASSET MANAGEMENT

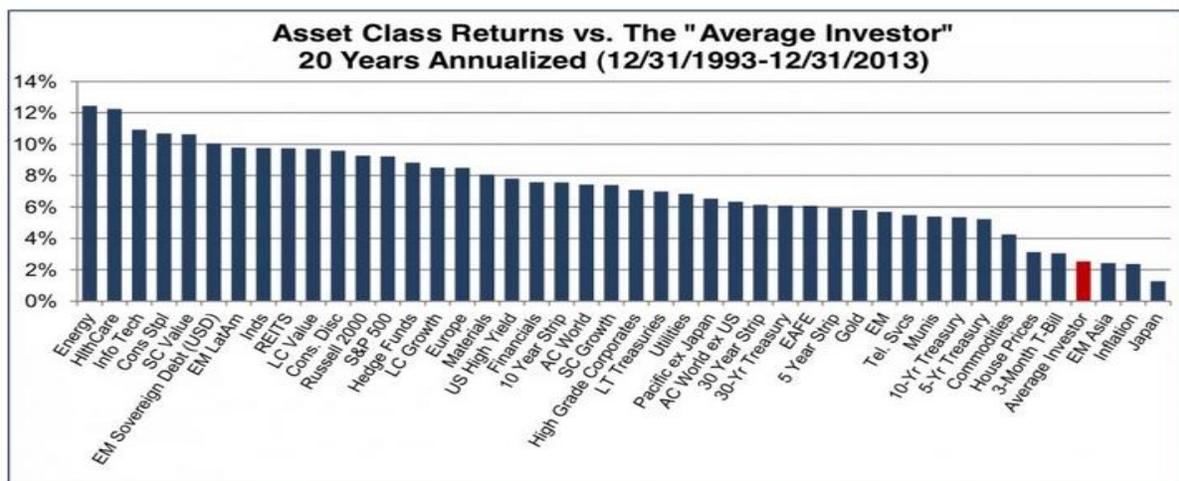
April 13, 2015

Clear Harbor Flash – Don't Let the Market Beat You

Investors are conditioned to desire to "beat the market" rather than prevent the market from beating themselves. Study after reputable study indicates that value is consistently added to a portfolio, and an entire wealth management strategy, only when discipline is embraced. Portfolio volatility is often the catalyst that forces investors to sell at the most inopportune moments.

If these first few thoughts have not either put a smile on your face or raised hairs on your neck, perhaps the next series of statistics will:

1. The average investor in the best performing mutual fund of the decade of the 2000s **lost 11%** annualized while the fund itself returned 18% annualized returns¹. How could this be true? "Investors" were not investing. They were chasing the fund's exceptional returns without recognizing that these returns were quite volatile--ultimately selling during moments when the fund was experiencing a correction while buying when it was on an upward tear.
2. The chart below illustrates the performance (from 1994-2013) of the average investor relative to various major asset classes:



Source: Richard Bernstein Advisors LLC., Bloomberg, MSCI, Standard & Poor's, Russell, HFRI, BofA Merrill Lynch, Dalbar, FHFA, FRB, FTSE. Total Returns in USD.

Average Investor is represented by Dalbar's average asset allocation investor return, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. For Index descriptors, see "Index Descriptions" at end of document.

What went wrong here and how can investors avoid such a folly in the future?

The graph above does not suggest that investors choose assets that are inferior in their performance but rather highlights an inability to capture returns generated by the vast majority of asset classes. How can this be?

Emotion was the most detrimental force that weighs on investor performance.

For a few investors, a fear of capital loss was possibly prompting them to own excessive levels of cash and short-dated Treasuries. However, the cause of the massive underperformance cannot be attributed to this segment of the investor universe. Instead, it is deemed more likely that investors allocated significant levels of their liquid wealth to asset classes that--while providing the greatest long term "total return" profile--possessed levels of volatility well in excess of their personal tolerance. Emotion led to forced selling which ultimately generated sub-par results at the portfolio and asset class level. Understanding the degree to which investors can truly endure portfolio volatility is critical to achieving optimal returns for each unit of "risk" that is invested in the market.

While history has taught us that the most volatile asset classes tend to provide the greatest long term performance, this uniform approach to investing assumes that humans are immune to irrational emotional behavior. However, the converse is in fact true; **investors who maintain a portfolio with lower expected relative volatility—on average—achieve a higher total return over the long haul than investors who embrace asset classes with high volatility and higher expected return.** One investor type recognizes their emotional investment tendencies while the other merely acts on empirical data which forces them to tack and ultimately abandon their proverbial ship at the moment when they should prepare to raise the spinnaker.

Understanding these natural and very human tendencies is important as it is what provides perspective and hopefully even a dose of wisdom on how we must counteract such urges.

Our process at Clear Harbor is paved by the belief that we constantly strive to achieve financial goals and objectives by taking the least amount of risk and analyzing and incorporating the intersection of:

- **client goals and objectives**
- **human behavior**
- **portfolio construction and asset class level risks**

At Clear Harbor, we work with clients to merge all three of these elements into a cogent and holistic wealth management strategy so that the desire to plan and invest for the long haul can produce the most fruitful of personal and financial outcomes.

¹ Greenblatt, J. (2005) *The Big Secret For The Small Investor*. New York, NY: Crown Publishing Group.

Disclosure: Clear Harbor Asset Management, LLC (“Clear Harbor”) is an SEC registered investment adviser with its principal place of business in the State of New York. Clear Harbor and its representatives are in compliance with the current notice filing requirements imposed upon registered investment advisers by those states in which Clear Harbor maintains clients. Clear Harbor may only transact business in those states in which it is notice filed, or qualifies for an exemption or exclusion from notice filing requirements.

The material contained herein is intended as a general market commentary. The commentary may contain general information and views that are not directly relevant to your particular account. Opinions expressed herein are those of Aaron Kennon and may differ from those of other employees and affiliates of Clear Harbor Asset Management LLC. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security. Any comparison to an index, including the S&P 500 and Russell 2000, is for comparative purposes only. An investment cannot be made directly into an index, which are unmanaged and do not reflect the deduction of advisory fees. This brochure is limited to the dissemination of general information pertaining to its investment advisory services. The current account composition is intended for informational purposes and allocations are subject to change.

For information pertaining to the registration status of Clear Harbor, please contact Clear Harbor or refer to the Investment Adviser Public Disclosure web site (www.adviserinfo.sec.gov). For additional information about Clear Harbor, including fees and services, send for our disclosure statement as set forth on Form ADV from Clear Harbor using the contact information herein. Please read the disclosure statement carefully before you invest or send money.