



"Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat." Sun Tzu: The Art Of War

The biggest mistake investors make over the long-term is investing without a strategy. The point that Sun Tzu was making, as it relates to investing, is that having a strategy, such as [buying and holding stocks](#), will indeed work. However, doing so without *tactics*, or a methodology to control risk and reduce emotional mistakes, will substantially lengthen the *route to victory*. In investing, *time* is both our most precious commodity and our biggest enemy. In the mainstream push to promote the *buy and hold* myth, the problem of *time* in the equation is often overlooked. The chart box below shows a **\$1000 investment from either a period of low or high valuations**. It assumes a real, total return holding period until death assuming the individual starts saving at 35-years of age using historical life-expectancy tables. No withdrawals were ever made. (Note: the periods from 1983 forward are still running as the investable-life expectancy span is 40-plus years.) The gold sloping line is the *promise* of 6% annualized compound returns. The blue line is

what actually happened with invested capital from 35 years of age until death, with the bar chart at the bottom of each period showing the surplus or shortfall of the goal of 6% annualized returns. In every single case, at the point of death, the invested capital is short of the promised goal. The difference between close to goal, and not, was the starting valuation level when investments were made. Back to Sun Tzu. **Strategy** is the overarching premise that derives your investment selections. Selecting the right strategy requires some thought about your mental state, aversion or acceptance of risk, and most importantly your duration of time horizon. Warren Buffett has a great strategy for investing. He buys great companies at bargain prices. However, his time horizon is 100-years. You can not invest like Mr. Buffett because you most likely don't have 100-years to capture the expected return on investment nor do you have \$1 billion to buy a company with. While the example is a bit extreme, the premise is valid. Many investors may believe they are long-term investors, but in reality they lack the time frame to achieve the long-term expected returns. The problem becomes the inability for the portfolio to withstand a sharp drawdown in price, and recover, within the actual time horizon they have to meet retirement needs. **Tactics** are the methods of controlling risk, taking advantage of short-term opportunities and mitigation of loss. Tactics alone, more commonly known as day trading, will end badly for most due to emotional behaviors. **Tactics, when married with a strategy, will reduce the risk of drawdowns and increase the probability of investment success over a given time period.** This is what we have been addressing over the last couple of months. As portfolio managers, we are long-term investors by nature. We have positions in our portfolios which are core to our investment strategy. **However, our tactical approach to risk management, such as stop-prices, cash levels, and hedging, all are part of the controls used to mitigate loss and create returns within the duration of client's objectives.** While the breakout of the two-month long consolidation yesterday is certainly encouraging, longer-term sell signals remain firmly intact keeping our cash levels higher than normal. **We are tactically looking to take advantage of the breakout by modestly increasing equity exposure as needed, but we do so with controls in place in case something goes wrong.** We are still within a very late-stage bull market with rising stresses from slowing credit growth, elevated valuations, increasing inflationary pressures without offsetting wage growth and geopolitical stresses. This isn't a battle to charge head first into without having a carefully thought out strategy with tactics to back it up.

?Victorious warriors win first and then go to war, while defeated warriors go to war first and then seek to win?? Sun Tzu: Art Of War

Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **Trump Tricks Trade Partners Into Dangerous Game** [by Peter Muller & Martin Hesse via Der Spiegel](#)
- **How Trump's Move On Iran Helps Saudi Arabia** [by Simon Constable via Forbes](#)
- **Why Wages Aren't Rising With Employment** [by Caroline Baum via MarketWatch](#)
- **3-Reasons To Expect A Recession Soon** [by Pierre Lemieux via Econlog](#)
- **Are We Trapped In A Debt Spiral** [by George Will via National Review](#)
- **Trump Doesn't Understand How Fed Works** [by Pedro Da Costa via BI](#)
- **Will Trump Pay The Price For What He Wants From Iran** [by Tom Luongo](#)
- **The Fed Has Robbed The Future** [by Brian Maher via The Daily Reckoning](#)
- **Trade Deficit Is A Meaningless Indicator** [by Adam Brandon via IBD](#)
- **Jobless Rate Looks Like Old Times, Economy Doesn't** [by Natalie Kitroeff via NYT](#)
- **Central Banks: The Great Experiment Has Failed** [by Nomi Prins via The Daily Reckoning](#)

- Sanders' Job Guarantee Boondoggle [by Robert Samuelson via RCM](#)
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Markets

- Dalio Derisks Portfolios Goes Net Short Stocks [by Tyler Durden via ZeroHedge](#)
 - Buying & Holding The Market Has Many Pitfalls [by Aaron Brown via Bloomberg](#)
 - Technically Considering Technical Analysis [by Seth Levine via The Integrating Investor](#)
 - Earnings Offer Up Important Investing Lesson [by Brian Sozzi via TheStreet.com](#)
 - A Low Unemployment Rate Isn't Bullish For Stocks [by Charlie Bilello via Pension Partners](#)
 - Why The Market Has Its Swagger Back [by Mark DeCambre via MarketWatch](#)
 - Why I'm Not An Emerging Market Bull [by Edward Harrison via Credit Writedowns](#)
 - Is It Time To Get Concerned [by Ryan Vlastelica via MarketWatch](#)
 - A Preview Of The Next Housing Crisis [by Scott Sumner via The Money Illusion](#)
 - Risk Aversion Meets Hypervalued Markets [by John Hussman via Hussman Funds](#)
 - This Signal Can Foreshadow Big Price Moves [by Chris Ciovacco via Ciovacco Capital](#)
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Most Read On RIA

- The Myth Of "Buy & Hold" & Why Starting Valuations Matter [by Lance Roberts](#)
 - **The Great Contagion** [by Danielle DiMartino-Booth via Money Strong](#)
 - Stoking The Embers Of Inflation [by Michael Lebowitz and J Brett Freeze](#)
 - The Coiled Spring Market [by Lance Roberts](#)
 - Recession Says Nothing About Future Stock Returns [by John Coumarianos](#)
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Research•/ Interesting•Reads

- The State Of American Debt Slaves [by Wolf Richter via Wolf Street](#)
 - Where's The Invisible Hand [by Stanley Druckenmiller via WSJ](#)
 - Is The U.S. Becoming Japan 2.0 [by Upfina](#)
 - **Wishful Thinking & Willful Blindness In Pension Plans** [by Danielle Park via JugglingDynamite.com](#)
 - Another Step Towards Collapse Of The PetroDollar [by Rory via The Daily Coin](#)
 - 13-Best Quotes From Warren Buffet's BRK Meeting [by Jen Wieczner via Fortune](#)
 - 21-Best Quotes From Charlie Munger's BRK Meeting [by Jen Wieczner via Fortune](#)
 - The Fed Should Shrink Its Balance Sheet [by Mickey Levy via Economics 21](#)
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?History repeats itself all the time on Wall Street?•? Edwin Lefevre

Questions, comments, suggestions ? please [email me](#).