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Your financial adviser will lose some of your money. Here's what to do.

By Mark Hulbert, Special to USA TODAY Published July 23, 2017

Losing money when investing is as inevitable as death and taxes. Those who immediately fire their advisers for incurring such losses will never be satisfied.

I'm referring to short-term losses, over periods as long as a year, if not more. Even advisers with the very best long-term records regularly lose money in many calendar years along the way.

That sobering truth was confirmed by a recent *Hulbert Financial Digest* study of the more than 1,000 newsletter model portfolios whose performances it has audited over the last four decades. The study focused on just the small minority of these portfolios that beat the Standard & Poor's 500 index over any 20-year period since 1980. It found that, on average, these market beaters still lost money in 1 of every 4 years and lagged the S&P 500 in 1 of every 2 years.

And remember that these statistics apply to the very best advisers. Others did even worse.

You might object that losses aren't inevitable for an adviser who always recommends money markets or short-term bond funds. But such an adviser will pay a high price for doing so, since he will lag the stock market in the majority of calendar years. None of the 1000-plus portfolios in the *Hulbert Financial Digest* database has come close to beating the stock market in every single year.

Another objection I often hear is that the investment newsletter industry is unrepresentative of Wall Street's professional money managers, who presumably really know what they're doing. But at least in regards to the frequency of short-term losses and market-lagging returns, those managers do no better.

Consider a study conducted several years ago by Brandes Investment Partners, a money management firm based in San Diego. The study analyzed actively-managed U.S. equity mutual funds in the Morningstar database that had beaten the S&P 500 over a 10-year period. It found that "all of them underperformed the Index substantially during shorter periods within the decade."

Even Warren Buffett, CEO of Berkshire Hathaway and considered the most successful investor alive today, has suffered numerous bouts of short-term market-lagging returns. The book value of his firm has lagged the S&P 500 in nine of the last 20 calendar years, for example, a proportion that is virtually identical to what was found among the best investment newsletters.

Clearly, then, you shouldn't use short-term losses or market-lagging returns as the basis for firing your investment adviser. Most investors who nevertheless do so compound their error by switching from the adviser at the bottom of the short-term performance scoreboards to the one at the top. The folly of that approach is illustrated by the awful performance of a strategy that, each year for the last four decades, invested in the top performing investment newsletter portfolio from the previous calendar year. This investor would have lost more than 90%, according to the *Hulbert Financial Digest*.

Clearly, we need to shift our focus away from the short-term winners and losers towards those who beat the market over the very long term. Though there is no magical minimum threshold for how many years this long term should encompass, I recommend to clients that it be at least 15 years.

Once you have chosen an adviser, be sure to stick with him even if he lags the market over a year or two, or even loses money. The rule of thumb I recommend: Fire your adviser only when you would no longer choose him if you were to freshly reapply the same criteria that led you to choose him in the first place. For example, if you chose an adviser because he beat the market over the trailing 15 years, then you'd fire him only if he no longer was ahead of the market over the trailing 15 years. That's unlikely to be the case even after a couple years of disappointing performance.

That seems like a lot to ask, and it is. But the alternative is guaranteed to lead to long-term market-lagging returns, if not outright losses.