Investment Approach

AN EVIDENCE-BASED METHODOLOGY

GREAT WATERS FINANCIAL

Let's be honest, most investors are drawn to strategies that promise to beat the market. Maybe it's picking the hottest actively managed fund or jumping in and out of stocks based on predictions about where things are headed. It sounds exciting, and who wouldn't want to come out ahead?

But here's what decades of research actually tell us: these strategies are incredibly hard to execute successfully, and they rarely deliver better results over the long haul.

Take market timing, for example. Economist William Sharpe found that you'd need to be right about three out of every four moves just to keep pace with a simple buy-and-hold approach. Another study showed that even if you correctly predicted rising markets 80% of the time, you'd still need near-perfect timing during downturns to outperform a steady, long-term investor. And that's a tall order, even for seasoned professionals.

Then there are fees. Active investing typically costs more, and those fees can quietly chip away at your returns over time, especially if the fund isn't consistently beating the market. Study after study shows that most actively managed funds fall short of their benchmarks once you factor in fees and taxes.

History backs up the case for staying invested. Between 1926 and 2023, U.S. markets posted positive returns in roughly two out of every three months. Bull markets have lasted much longer than bear markets and produced far bigger gains. The problem? When investors bail out during downturns, they often miss the early stages of recovery which are some of the best days for building long-term wealth.

That's why we believe in a strategic, disciplined approach. Strategic asset allocation means building a diversified portfolio that spans many types of investments, not just stocks and bonds, but different company sizes, regions, and sectors. On the bond side, that includes varying maturities and credit qualities. Each piece plays a role in managing risk and capturing returns across different market conditions. When it's aligned with your goals and timeline, this approach helps smooth out the bumps and deliver more consistent long-term results.

Research also points to certain areas of the market that tend to offer higher expected returns over time:

Small-cap stocks – smaller companies with more room to grow

Value stocks – companies trading at lower prices relative to their fundamentals

High-profitability companies – firms that use their resources efficiently

These investments won't outperform every single year, but they've historically rewarded patient investors. By intentionally "tilting" your portfolio toward these areas while staying broadly diversified, you can boost your long-term return potential without taking on unnecessary risk.

This thinking is rooted in Modern Portfolio Theory, developed by economist Harry Markowitz. His research showed that owning a wide mix of investments that don't all move in the same direction at the same time can lower your risk without sacrificing expected returns. It's a foundational idea in smart investing.

For people nearing or already in retirement, this evidence-based approach matters even more. You need to protect what you've saved, generate income, and stay ready for whatever the market throws your way. A diversified portfolio of low-cost index funds, strategically allocated and adjusted over time, supports all of those goals. It helps you stay invested through market ups and downs, avoid emotional decisions, and keep your focus where it belongs: on your long-term financial well-being.

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