# The Merciless Math of Loss

***"It's a little-known but startling fact: Since 1901, the Dow Jones Industrial Average has spent 76.4% of the time declining in value or recovering from loss and just 23.6% of the time creating wealth."***

That's according to well-respected Ned Davis Research, Inc. in Venice, Florida. It raises a big question: How is it possible that investors spend three quarters of their time just getting back to the starting line?

The answer is explained by the unforgiving mathematics of loss: When investments lose ground, they must make up more ground, percentage-wise, just to get back to even.

Say you invest $10,000 and your account takes a 10% loss over six months. You're down to a $9,000 balance. Because of your reduced capital base, you will have to earn 11% to recoup your losses. The steeper the losses, the higher the hurdle becomes for breaking even. For example: Recovering a loss of 30% requires a 42.9% gain; a 50% loss requires a 100% gain. To recover from a loss of 75%, a 300% gain is required.

Getting back to even can eat up precious time. Take that 10% loss over six months. Earning a steady 4% annually after that, you will still need two and three-quarter years just to get back to where you started. That time would be much better spent accumulating new money. Remember, the idea is to grow your money, not just regain lost capital.

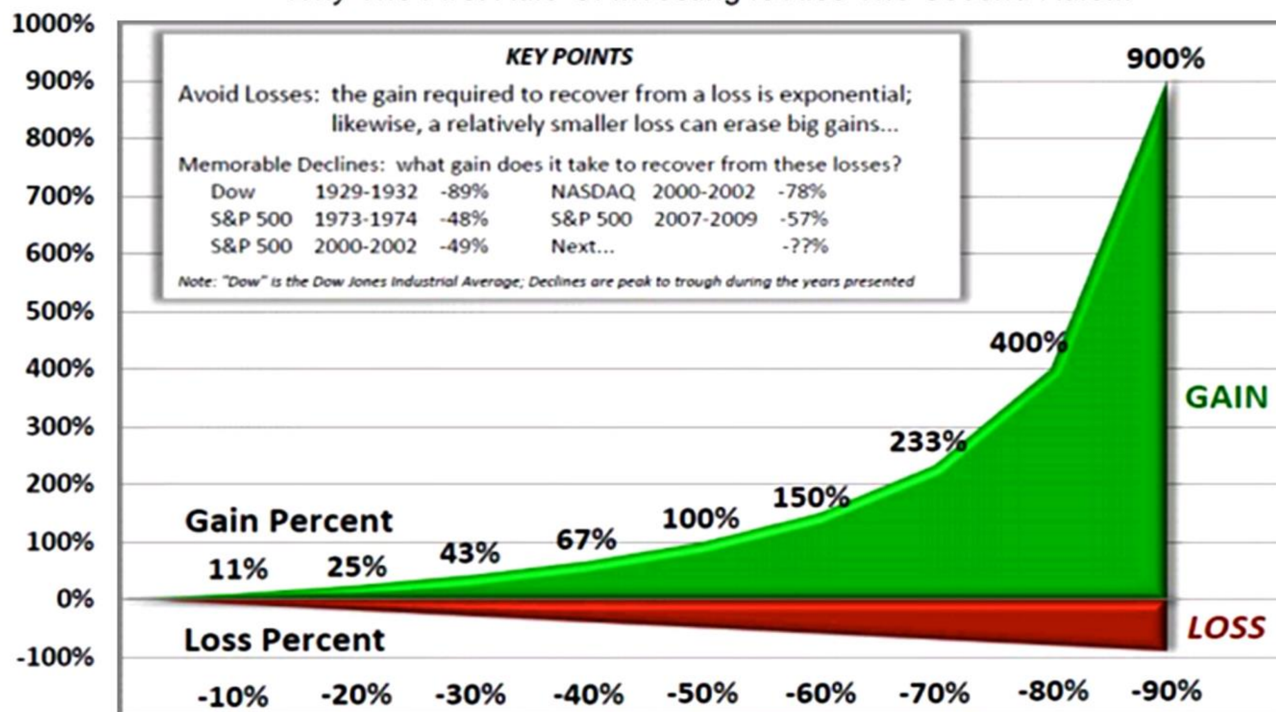
Spending time recouping avoidable losses makes investing extremely inefficient. It is for that reason that active investment management is critically important. Especially in more uncertain environments, successful active investing can help preserve and grow capital more efficiently than passive investing.

We believe tactical investing can be even more effective. The best tactical investors use their flexibility to skillfully shift assets from one asset class to another—steering clear of trouble and seizing growth opportunities.

***We like to think of investment approaches as types of aircrafts. Passive investments are like hot air balloons. In favorable conditions, they can indeed carry passengers to their financial goals.***

Active investments, on the other hand, are like planes. When winds are fair, they, too, can carry you in the right direction. They also have the flexibility to maneuver through bad weather, protecting their passengers from harm and keeping them moving toward the destination.

As it turns out, planes are looking a lot more appealing than balloons right now. Of 380 financial advisors polled in the Investment News Outlook 2015 survey, 73% expect active management to outperform passive management in the year ahead.




As InvestmentNews put it: "With the U.S. stock market closing in on its sixth consecutive annual gain, and having gone more than three years without a correction of at least 10%, more financial advisers and market analysts are favoring active management over broad-market indexes that have no ability to navigate risk."

The bottom line: The markets are an ever-changing complex of opportunity and risk. By nimbly maneuvering through the markets, active managers can help to provide increased portfolio stability. And that can help to lay the groundwork for enhanced returns.

### *Want to know more?*

Contact Tom Hannafin
610-989-9090 x 145
tom@cmgwealth.com

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