

Morningstar Investment Services Quarterly Commentary

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Investing insights can come from unexpected places. For instance, you could learn a thing or two from the envelope that carried this commentary and your Morningstar Managed Portfolios account statement.

What could an envelope possibly teach you about investing? By itself, nothing. The lesson is in how you felt when you opened it. Did you feel excited? Apprehensive? Uneasy, perhaps?

Though these feelings might seem trivial, they're actually significant. For example, studies of investor behavior have found that investors tend to check their account balances more often when their investments are gaining value. Why? They're seeking evidence that seems to confirm their good judgment—they're excited at the prospect. And so they're far likelier to tear open their quarterly account statement envelope in a rush, eager to read its contents.

Contrast that with investors who'd sooner have a root canal than crack open their quarterly statement envelope. This behavior is most common when investors have experienced recent portfolio losses. They dread confronting the evidence, and so are likelier to bury the account statement envelope at the bottom of the pile than open it.

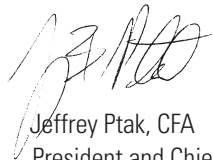
Which brings me to you: If you find yourself alternating between glee and despair when the envelope shows up at your door, chances are you're over-emphasizing the short-term. Remember that the road to meeting your goals will seldom follow a straight line. But when you're very focused on quarterly results, the path will seem especially jagged and perilous. That could lead you to buy or sell investments at inopportune times, impeding your chances of long-term success.

If you can't shake those feelings, it's possible that your investments are simply too volatile for you to tolerate. In that case, talk to your financial advisor about moving to a more-conservative, or better-diversified, portfolio that's less likely to jangle your nerves.

The "envelope test" isn't pass/fail. For those of you who withstood the onslaught of the financial crisis and stuck to your plan, you've more than earned the right to look forward to receiving your account statement to see the effect the market's rise has had on your portfolio. The key is vigilance—asking yourself how you'd feel if the markets reversed course and your portfolio took a hit.

In that sense, the envelope test is a good counterbalance—if you're feeling giddy at your recent good fortune, it might help you to recalibrate your expectations; and if you're down in the dumps, it's likely to remind you that the good times are less distant than they seem. That is, it'll help to even your keel, a good thing in investing, and in life.

On behalf of the entire Morningstar Investment Services team, thank you for your consideration, and for your business.



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