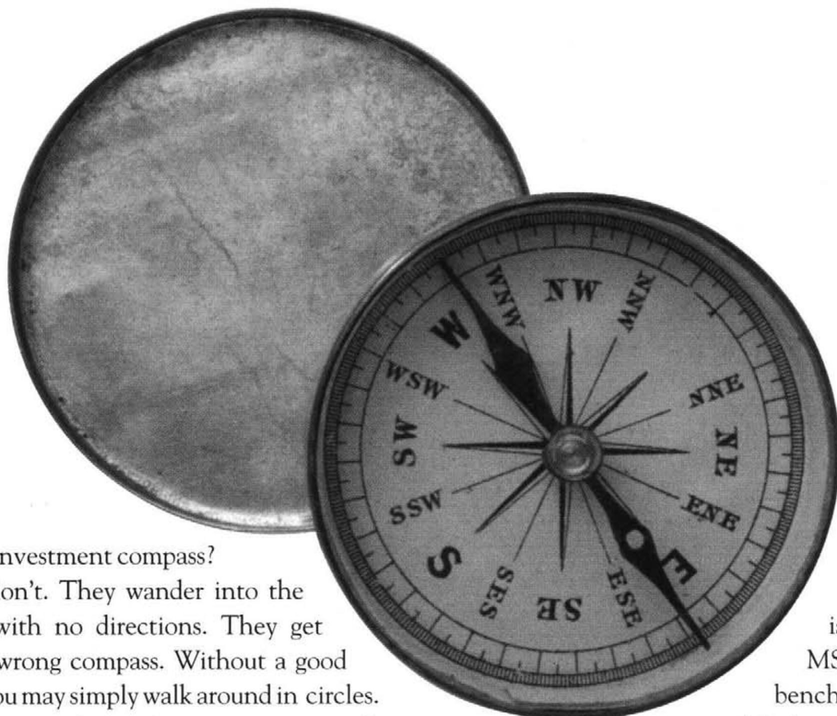
The foregoing constitutes the general views of Fisher Investments and should not be regarded as personalized investment advice or a reflection of the performance of Fisher Investments or its clients. Nothing herein is intended to be a recommendation or a forecast of market condition. Rather it is intended to illustrate a point. Current and future markets may differ significantly from those illustrated here. Not all past forecasts were, nor future forecasts may be, as accurate as those predicted herein. Investing in the stock markets involves a risk of loss. Investing in foreign stock markets involves additional risks, such as the risk of currency fluctuations. Past performance is never a guarantee of future returns. This article is from the year 2000 and statements made as of this date may no longer be applicable.

Your Investment Compass

Pick a two-pronged strategy and benchmark

by Kenneth L. Fisher



Do you have an investment compass? Most people don't. They wander into the investment world with no directions. They get lost. Some use the wrong compass. Without a good measurement tool you may simply walk around in circles. Take the wrong steps and your investments can plunge. A solid benchmark can be the difference between success and disaster.

The Morgan Stanley Capital International World is the broadest and best-constructed index available. It's what I use to benchmark my global portfolio's performance. MSCI World measures the performance of the world's major stock markets, tracking Germany, France, Japan, America and most other developed countries. It's a capitalization-weighted index. Microsoft or Sony have more impact than smaller firms. It measures where the money is.

A globally diversified stock portfolio seeks strong returns and reduced risk. Stocks outperform other investments. Global diversification reduces risk. Comparing performance against the Morgan Stanley Capital International World shows how a portfolio is performing.

Many folks have no strategy and no reliable benchmark. They hold their finger to the wind. "Did I make or lose money?" they ask themselves. "Am I doing better or worse than my friends?" Without a benchmark investors can't track their progress, and they don't really know where they're going.

A 5% gain in a year during which MSCI World rises 10% is poor. The same gain in a year MSCI World falls is great. This benchmark lets you know if your global portfolio is on track.

The S&P 500 is the best index to evaluate a pure U.S. portfolio. It's also capitalization-weighted, and it measures the performance of about 500 large U.S. stocks. There's no global diversification, but there is plenty of industry diversification. Most investors, however, have trouble keeping up with the S&P 500. Matching its performance over the long-term, or that of the S&P 500 or the MSCI World index, is more than most can manage.

To beat a benchmark like the S&P 500 use a two-pronged strategy. Place most of your portfolio in a core strategy. If you think technology will drive returns, then buy mostly tech stocks, but you should also have a fallback, or counterstrategy, to protect yourself if your core strategy flops. The rest of your money goes into what will do the very best if your core strategy is completely wrong. As a counter to those tech holdings, hold some stocks with inelastic demand—firms that can raise prices if things get rockier. Tobacco, oil and drug companies are examples.

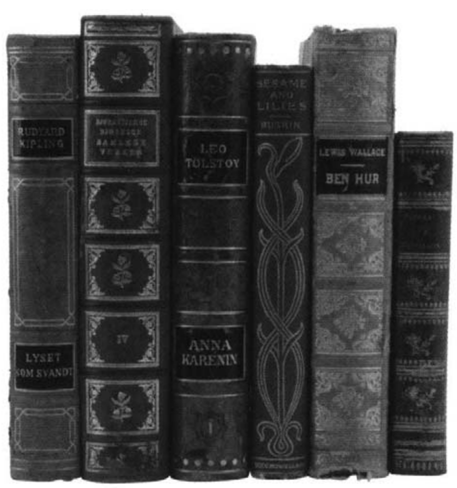
Many folks have no strategy and no reliable benchmark. They hold their finger to the wind. "Did I make or lose money?" they ask themselves. "Am I doing better or worse than my friends?" Without a benchmark, investors can't track their progress, and they don't really know where they're going. Missing opportunities, they blunder into blow-ups. Others are led down the wrong path by making important decisions based on the moves of flawed benchmarks, like the popular Dow Jones.

The Dow Jones Industrial Average is completely useless. Tracking only 30 stocks, it's a narrow and arbitrary gauge of market activity. It includes JP Morgan, worth about $20 billion, but omits Cisco, valued at around $350 billion. It's also a price-weighted rather than cap-weighted index. In the Dow, a company offering 10 shares of stock at $100 apiece would have twice the effect of a company with a million shares selling for $50 each. That's an over-simplified example, but you get the idea. Instead of the value of a company moving the index, the arbitrary price of a share does.

A recipe for total disaster is shifting benchmarks. Folks drive with their rear-view mirror. The Dow Jones does great, and they decide to build a portfolio to beat it. Technology was up big last year. Many investors once happy with beating the S&P 500 now insist their returns surpass the high-flying NASDAQ 100, a benchmark of largely technology stocks. Those who chase heat get burned. My expectation is that most people buying tech companies are going to lose money in 2000.

There are plenty of other benchmarks. The Russell 2000 measures small-stock performance. Wilshire offers indexes measuring performance of small-value or small-growth stocks. Morgan Stanley has foreign indexes and some specializing in emerging markets. Indeed an index exists to track just about every major market group or region. Following all of them can be confusing. That's all right. You can ignore the majority. Pick a two-pronged strategy and benchmark. Then stick to it.

An index exists to track just about every major market group or region. Following all of them can be confusing. That's all right. You can ignore the majority. Pick a two-pronged strategy and benchmark. Then stick to it.



The Morgan Stanley Capital International World has been my benchmark since 1997. My core strategy: copious money creation in Japan and Euroland flows into America, seeking our higher interest rates, driving up the dollar and a bull market focused on our most global U.S. stocks, the very largest ones. My counterstrategy? If I'm wrong and money returns home from America, Japan's large exporters and European stocks will head for the sky. I think that's beginning to happen in 2000. I'm shifting to owning more Japanese and European stocks. A smaller weighting of the largest U.S. stocks will become my counter-strategy.

Even while shifting, I know where I'm going. I continue to focus on beating MSCI World. With a core and counter strategy, some of my stocks are always laggards. That doesn't bother me. It's the cost of risk control—a form of insurance—and basic to portfolio management. Nor does it upset me that there's always another benchmark with hotter returns. Every year that I beat my benchmark, while managing risk, is another step in building long-term success. There are no short-cuts. Your goal shouldn't be to maximize returns by chasing the hottest part of the market. Rather, maximize the likelihood of beating a specific benchmark by employing a core and counter strategy.

Kenneth L Fisher is the founder and CEO of Fisher Investments, Inc., a Woodside, California, money management firm. The author of the Portfolio Strategy column for Forbes magazine, he has written for Forbes since 1984. Email: kenfisher@fi.com.

The market predictions herein come from Ken Fisher's MILLIONAIRE MAGAZINE article. Not all past predictions were or future predictions may be as accurate as those herein. Any mention of a particular security in an article is not intended to represent a recommendation to buy or sell that security. Rather, it is intended to illustrate a point. There can be no assurance that advisory clients are invested in any security mentioned or continue to hold such a security. It should not be assumed that the future performance of any security mentioned will be profitable.
M.01.006-Q204