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Changing Lanes

Neal Merbaum

"My name is Neal, and I'm a lane changer. It's been two weeks since I changed lanes — and that's only because it's been two weeks since I was on the highway!"

If there were an organization similar to Alcoholics Anonymous for chronic lane changers, I would join. I know I have a problem, but I find it hard to stop. If I don't change lanes, I feel like everyone's passing me by. And that's despite the fact that I know that research shows that lane changing doesn't get you to your destination any faster, while it puts you at greater risk for having an accident.

One interesting thing that the research on lane changing revealed is that there are perceptual illusions that fool drivers into thinking they are in the slower-moving lane more than they really are. Even when two lanes are moving at the same average speed, it doesn't seem that way to drivers.

There's a parallel here to another kind of lane changing: active trading. (Thankfully, I have no problem avoiding this one.) Just as lane changing increases the risk of harm, constantly changing our investments can hurt performance and increase our trading costs and taxes. And as with driving, a "perceptual illusion" can make it seem as though active traders and actively managed funds are getting ahead of investors who follow an evidence-based approach. One cause for this illusion is that the media tend to report on which active managers did well over some (often short) period, or which segments of the market have been particularly kind to active managers lately (small caps one year, emerging markets the next). The same media spend much less time talking about the research that shows that evidence-based investing has consistently beaten active management after fees and expenses.

Of course, there are times when changing lanes makes sense (for example, to get off at an exit or go around a slow-moving truck). And there are times when changing investments makes sense — but only when your circumstances change, as with an inheritance or an unanticipated major expense.

When we find ourselves tempted by stories about the latest hot manager or sector, thinking that it's time to switch our investments to a faster lane, it pays to keep our eyes on the road and remember that, when it comes to active management, this year's speed demon might be next year's slowpoke.

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About Neal Merbaum, President, Rocktree Financial Advisors, Boston

Neal Merbaum is president of Rocktree Financial Advisors LLC. His diverse background includes stints as a commodities trader, trading-desk manager, executive director of a family foundation, and nonprofit consultant. For fourteen years he worked for John W. Henry, the principal owner of the Boston Red Sox, in a variety of roles. Neal is trained as a mediator and has mediated small-claims cases and landlord/tenant disputes in the Boston court system.

Neal holds a bachelor's degree in philosophy from the State University of New York at Stony Brook and an AWMA certification from the College for Financial Planning.

Neal enjoys playing tennis when he's not injured. He and his wife reside in Boston.

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