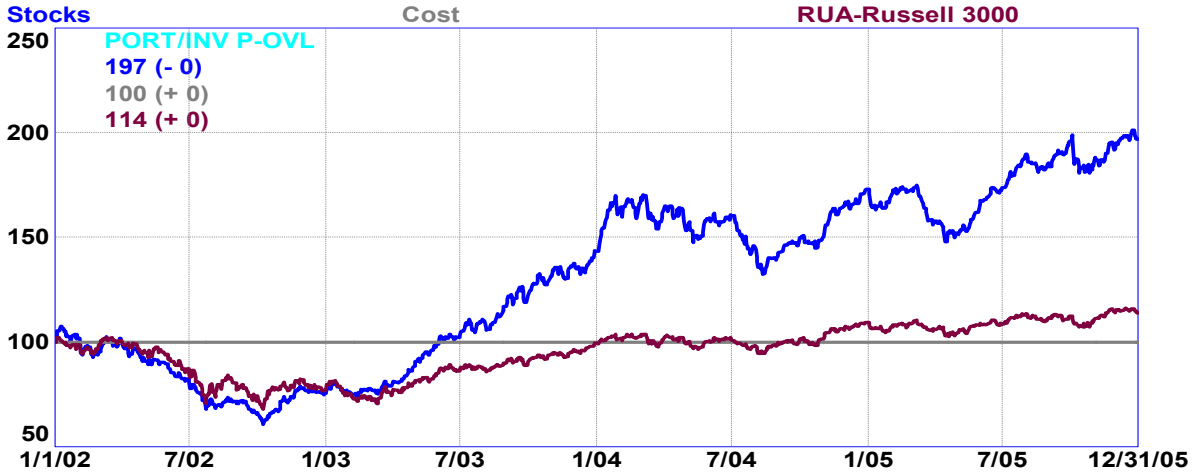
Volatility

Wenzel Analytics Inc

If you drive to a given destination you rarely can get there by going the shortest distance between two points as the crow flies. It is faster and easier to follow the roads and "go out of your way." With investing, the important consideration is the probability of having at least the desired valuation at a given point in the future. This is more important than the variations along the way. The paper "Realistic Financial Projections" gets at probabilities of reaching financial goals given historical market volatility.

I continue to struggle with the implications of getting higher returns and less variation with bigger accounts than with smaller accounts. Larger accounts offer opportunity for more diversification. Knowing that a potential loss is covered by many other investments, I can go with the total probabilities. As an example, below are a couple charts from the largest account I manage. The first chart shows just stocks. It began with about $100k and is presently at $360k. The second chart adds cash and funds (mostly ETFs). It began with about $300k and is presently at $614k. You can compare the returns and volatility (line smoothness) to your account.

Larger Account, Stocks Only. Annual Return Rate: 20.9%.



Same Larger Account, Stocks, Funds and Cash. Annual Return Rate: 15.6%.

The most important chart would be a consolidated chart for all your investments, showing how the varied pieces fit together.

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