Legacy Wealth Management
Group of Las Vegas

Learn...

the investment lessons from the classic fable of "The Tortoise and the Hare" and discover the benefits of slow, steady growth over high-risk strategies.

Aesop's fable of "The Tortoise and the Hare" teaches the importance of perseverance over arrogance, a lesson that applies to investing. While returns are crucial in long-term investing, focusing only on returns without considering volatility is like choosing the hare's approach over the tortoise's steady pace. Volatility drag can slow wealth growth, as shown in examples with varying levels of volatility. Managing and minimizing volatility can help a portfolio recover more quickly from downturns and achieve steadier growth over time. Just as the tortoise's steady approach won the race, investors may benefit more from a consistent, low-volatility investment strategy.

A Real-World Example

Let's look at the market drop of 2022 and the subsequent market rise of 2023 through the returns of three U.S. benchmarks: Dimensional US Core Equity 2 ETF (DFAC), the S&P 500 Index and the Nasdaq Composite Index.

For 2023, DFAC was up nicely at 22.0%. The S&P 500 was up even more at 26.3%. The Nasdaq was up a breathtaking 44.6% (the Nasdaq was the place to be in 2023).

Let's now go back one more year to 2022 when all three benchmarks dropped in value. DFAC dropped the least, down 14.9%. The S&P 500 was down 18.1%. The Nasdaq dropped by nearly a third of its value, down 32.5% — *not* the place to be in 2022!

Putting 2022 and 2023 together, DFAC was up 3.8% over both years. The S&P 500 was up 3.4%. The Nasdaq was *down* 2.4%.

Even with the breathtaking 2023 return of the Nasdaq, volatility contributed to its third-place finish as the weakest performer across the three benchmarks. It performed much like the hare, and the one that *lost the least* (DFAC) — in other words, had the lowest volatility drag — was the tortoise that won the race.

Takeaways For Investors

This fable reminds investors of the importance of patience and the risks of overconfidence. Just as someone who only saw the tortoise and hare at the beginning of the race would be surprised by the outcome, so too can we be surprised and disappointed by the outcome of chasing high returns without considering the impact of volatility.

The hare's approach in the story mirrors the allure of high-volatility investments, which promise substantial returns in a short period. While these can be tempting, they come with the risk of significant losses that require extraordinary gains to recover, as exemplified by the hare's decision to rest and ultimate failure to recover.

The tortoise's approach underscores the value of consistency. For investors, this means diversifying one's portfolio to include a mix of assets to maximize after-tax wealth for the right amount of risk. At any given time in a diversified portfolio of stocks and bonds, there will be an asset class that appears to be a drag on the portfolio. Over time, though, the leaders and laggards will rotate positions, and this diversification tends to reduce volatility of the overall portfolio. By balancing return and volatility, investors can mitigate the effects of severe downturns and subsequent volatility drag, ensuring their portfolio moves forward steadily, even if it doesn't always lead the race.

In classic parable fashion, “The Tortoise and the Hare” offers timeless wisdom that transcends its original moral. In the world of investing, just as in Aesop’s fable, sometimes slow and steady does indeed win the race.

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