The Summer Slowdown: How Does it Impact the Markets?

Now that summer is here, your thoughts have most likely turned away from taxes and investment portfolios and towards beaches and boat drinks. During the summer months you may be less likely to pay close attention to the capital markets and you therefore may find yourself trading less frequently in your investment accounts. Ironically, this slowdown in your trading activity is a good thing, not only for your mental health, but also for the health of your investment portfolio.

There is something to that old saying "slow and steady wins the race." Investors often believe they need to trade frequently to take advantage of markets, when in fact the opposite is true in the context of creating sustainable long-term wealth. The summer slowdown is something you should embrace in your investments throughout the entire year, since most investors tend to trade far too often. Natural impatience and the ubiquitous financial media conspire to entice investors to respond to emotionally charged events and to chase short-term trends in the markets. Numerous academic studies have shown that this activity is counter-productive and that *lower* trading activity usually leads to higher investment returns. When you go on vacation, you are probably enhancing the performance of your investments.

The good news does not end there. Although *you* may take things a bit more slowly in the summer, the financial markets will keep on working in your absence. As you may have heard, "money never sleeps," and it never goes on summer vacation either. The stock market does not care that you are leaving the office earlier or taking a few days off; it will continue to work for you regardless.

In fact, when it comes to investing, you should act like it's summer all year long. The angst and second-guessing that accompany many investment strategies are entirely unnecessary. Active trading is a losing proposition for most investors, and recent revelations about the proliferation of computerized high-frequency trading (HFT) programs have shown that the deck is more heavily stacked against the individual investor than most had previously thought.

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In his latest book, *Flash Boys: A Wall Street Revolt*, celebrated author Michael Lewis shows how the microstructure of the stock market allows a small group of privileged professional traders to profit at the expense of everyone else. The advantage these traders have does not come from skill, but from their exclusive access to pricing information. Essentially, these traders and their computers are allowed to view market information a split-second sooner than you and your computer can, and this allows them to profit at the expense of other investors.

This is bad news for traders, but it does not pose a problem for long-term investors. One easy way to avoid being harmed by this lopsided system is to trade infrequently and patiently. High-frequency traders profit by taking advantage of investors who are in a hurry to trade. Another way to protect yourself is to own passive or indexed mutual funds. The managers of passive funds trade infrequently and the funds themselves are priced once per day, independent of the activity of high-frequency traders. Patience is most definitely a virtue, but it is particularly so when going up against high frequency traders.

Flash Boys is light, interesting summer reading, and it will keep your mind sharp as you relax on your vacation. More important, if you decide that it's better to invest wisely, trade infrequently, and allow the markets to work for you, the book will allow you to relax without worry, with the knowledge that the summer slowdown is a good thing, for both you and your portfolio.

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