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DARE TO BE DULL

3 statements that should be true but cost us a bundle

There are many statements that we use in our lives that guide us day to day. They serve us well in most aspects, but serve our heads on a platter when it comes to investing.

Let's take a look at a few and find out why.

I need to follow my instincts



R O T H

How many times in our lives have we said, "I knew this didn't seem right?"

I know I have said countless times that I should have followed my instincts. My instincts have always proven to be a good thing, whether it's being presented with a deal that seems too good to be true or whether there was something about an individual that I just didn't trust.

When it comes to investing, however, I'd be very poor if I invested how my instincts made me feel.

During a bull market, greed has me wishing I had a greater proportion of my portfolio in stocks and I feel like increasing it. In a bear market, my stomach sinks with every dollar my portfolio goes down and I feel fear and want to sell.

Of course the market gurus and the media always seem to play to my sense of fear and greed.

Listening to those feelings would have me buying after the market has gone up and selling after it has dropped, or have me taking that roller coaster ride of buying a hot stock or mutual fund after it had skyrocketed and selling it when it performed poorly.

Wheee!

Unfortunately, that's just what most investors do, and how they end up in buy high/sell low land.

Because it's pretty close to impossible to

turn off an emotion in only one aspect of your life, I recommend investing exactly the opposite of how you feel. Pick an overall stock, bond and cash allocation, and rebalance periodically. It's a bitter pill to swallow, but rebalancing means selling some of your stocks after the market has gone up and buying some after the market has dropped.

It feels so wrong to say goodbye to a winner and hello to a loser, but boy does it work.

It's important to be proactive

I often lecture myself, after the fact of course, that I should have been more proactive about whatever it was I knew was coming. Being proactive in life is great. How does it translate to your investing? Quite poorly.

Not to hear the many media gurus tell it. They claim to have sold before a market downturn and preach the virtues of being proactive. It's important to get out of the market or a particular sector when the warning signs are there, or so the argument goes.

Well, I've started tracking some of the timing advice that came from these gurus. I figured they would have at least the randomness of 50/50 coin-flipping in their favor, meaning that I expected them to be right about half the time. But surprise, surprise, they weren't even close. I also noted that not one talking head ever fessed up to being wrong.

I'm not sure why I was surprised about how poorly their proactive advice performed. Studies have consistently shown that the more one tries to time the market, the lower the performance. So my advice is to remember it's time in the market rather than timing the market.

Now, I just have to take my own advice and resist the temptation of doing the opposite of the gurus just because they seem

to be wrong most of the time. Investing is one of the few areas where being lazy trumps being proactive.

If I want a great money manager, I need to pay for it

You get what you pay for is a bias that goes to the bone.

The much-made argument goes something like, "if you needed a heart transplant, you wouldn't go to the cheapest heart surgeon." Much as I'm always on a value quest, that argument has my buy-in 100 percent.

You know what's coming ... when it comes to investing that logic falls apart.

The stock market is the land of the professional with more than 90 percent professionally managed. In reality, we are paying our professional to outsmart other professionals. My heart surgeon wouldn't need to make someone else sick in order to make me better. However, our money manager has to outperform all the other money managers by enough to cover their fees.

The odds of that working in the long-term are less than 1 percent.

My advice

When it comes to investing, there are many beliefs we assume to be true that cost us. Some of these myths are exposed in a new book, "Wise Investing Made Simple" by Larry Swedroe. When you learn why some of these myths are better for Wall Street than they are for you, you can build more wealth for yourself.

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