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DARE TO BE DULL

The world stock market plunge and what to do about it

Reading the market headlines lately is enough to turn us all into nail-biters.

“World stocks plunge” and “It’s another horrible day” are pretty representative of the doom and gloom these days. What is the average investor to do in the face of all this stomach-dropping, scary news?

Let’s start by looking at the facts, in both the short-term and the long-term.



R O T H

World stock markets in 2008 — The U.S. stock market is down about 7 percent this year, while international stocks are down about 9 percent. Most of us are watching the stock portion of our nest egg shrink by this amount, and longing for something less painful — like, maybe a root canal without Novocain. All we’re thinking about now is how to make it stop.

The last five years in the world stock market — The U.S. stock market is up by 68 percent while international markets are up by 157 percent! This has been one of the best long-term periods ever for the world stock markets. And these numbers include the impact of the recent pullback.

Both summaries of stock market performance are accurate. The differences all come down to the perspective you take. Most of us tend to look at the short-run. And it’s that very perspective that makes us try to time the market, even though we know it doesn’t work.

Understanding our feelings — I’m a guy and, as such, I’m not generally one to talk about my feelings. When it comes to investing, however, being in touch with my feelings is critical to being a good investor. This is particularly important when it comes to knowing how we really feel about risk.

Last October, when the market was hitting all-time highs, we all felt like wheeling-dealing risk-takers who could accept a lot of risk. That’s why, when I developed a portfolio for clients, I often got called a bit conservative for having a large chunk in boring bond and money market funds. The truth is that I was in touch with my feelings, and the hurt of 2002, after the market had lost nearly half its value, was always close in my memory.

Now that the market is on a decline, we have the opposite tendency, which is to panic and sell. It takes a cool head to stay in the market during bad times. And for those who can stand the pain, your courage will be rewarded with the inevitable gain.

My advice

Remember that it’s better to buy when the market is down and sell when it is up. Thus, the question of whether to sell some of your equity holdings was far more relevant last October than it is today. Now that the market is down, it could be a buying opportunity. When our favorite retailer has a sale, we can’t wait to buy that bargain but, for some reason, when the stock market has a sale, we get scared and run.

Here’s my advice:

Don’t try to time the market — The more we move into and out of the market, the lower

our returns tend to be. We can thank whatever is at the switch of our emotions for making us do the wrong things at the wrong times.

Remember that capitalism works — Capitalism is founded on the notion that if you take a smart risk with your money, you should expect a positive return. In fact, only twice in the history of the stock market has it lost value over a 10 year period. And that loss was pretty minimal.

Accept that bear markets are part of investing — If you stick to a rebalancing strategy then now is the time to be buying more stock funds.

Get in touch with your feelings — Just remember that we are feeling animals that happen to think rather than the other way around. It is perfectly normal and OK to feel the pain when our nest egg starts shrinking. But any knee-jerk reactions to these feelings will only lead to knee-jerk actions, and the unfortunate result will be, yet again, transferring our wealth to others.

Remember that it’s not so easy to be a logical investor, especially in these “bearish” times that try investors’ souls. So in the words of Warren Buffett, “Be fearful when others are greedy and greedy when others are fearful.”

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