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WE MEAN BUSINESS

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DARE TO BE DULL

## Invest in the stock market now? Are you crazy?

Looking at the business headlines is enough to scare anyone into squirreling away any money they have under the nearest mattress. I'm talking about scary headlines like the following:

- America Bears the Recession
- Real Estate Bubbles Over
- Airline Industry Crashes
- CEOs Trade Watches for Handcuffs

With all of this gloomy news, it's pretty hard to summon the courage to invest in the stock market.

Yet, that's exactly what investing is about. It's when the going gets tough that the tough get going. While the speculators predictably abandon ship, the true investors are able to profit from the emotional mistakes of these fair-weather market players.

Time and again, the average investor demonstrates fearlessness in good times, and build-a-bomb-shelter fearfulness in bad times.

That's why average investors underperform the market by 1.5 percent annually over and above the costs they pay. We investors have a knack for timing the market wrong.

**I'm 100 percent sure these headlines are good news for the market.**

I'm a strong believer that the worse the current economic news is, the better things are likely to be for the future of the stock market. That's because the market has already reacted to the bad news.

In fact, in this case, I'm certain these headlines mean great things for the stock market.

How can I be so sure these bad headlines mean good news for the market?

Easy, because, as familiar as these headlines sound, I haven't taken them from recent news. They happen to be some of the "top 10 business stories of the year," according to a Motley Fool story that was published on the



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last day of 2002.

In fact, every single one of the top 10 business stories was negative.

Essentially, all of that negative news had already been reacted to by the stock market, and ushered in the beginning of one of the most bullish five years in its history.

During the next five years, the total U.S. stock market gained 91 percent, while international stock markets gained 190 percent.

That's right, even investors who just owned the entire global stock market doubled their money and then some.

**What were you investing in at the end of 2002?**

If you were like most people who had seen their nest egg shrink, you were probably among the droves fleeing the stock market and missed out on a good chunk of this five-year raging bull.

Most of us were fearful at the exact time we should have been greedy. We all know that the time to buy is when stock prices are low but walking the talk isn't all that easy.

**What were you investing in during 2007?**

It doesn't take a rocket scientist to tell you that, after your U.S. stocks have doubled and your international stocks have tripled that perhaps some rebalancing needs to take place.

And, yes, that rebalancing would require you to sell some of those hot equities and buy some boring bonds.

Instead, we did just the opposite and followed along with the rest of the herd by putting more into the stock market.

We got greedy at the exact time we should have been most fearful.

Not to rub salt in the financial wounds, but if you had followed a prudent rebalancing strategy, then the 2008 bear market wouldn't have been so painful.

All of this is common sense but, alas, common sense isn't so common.

### Lessons learned

I often ask investors what they think the market will return during the next year.

Although I haven't kept an exact record, it seems to me that last year, most investors gave me a prediction of a gain of 15 percent to 20 percent.

When I ask that question today, I mostly get negative predictions about market returns. I take this as extremely good news, since human nature has historically been a poor predictor of the stock market.

The current news is gloomy, the economy is sluggish and the bear is riding roughshod over Wall Street.

While I admit that I don't know what will happen during the next year, I see all of this as a positive signal for the investor.

Let me be clear that I am not saying to put everything in the stock market, or to use any market timing strategy other than rebalancing to your long-term asset allocation target.

Never confuse gloomy economic news or pessimistic Wall Street forecasts with a future prediction of how the stock market is going to do. All of this gloomy news is already priced into the market and, if anything, the market has probably overreacted.

My advice is to be a long-term investor and profit from the emotions of speculators.

Stay the course.

If the market declines during the next year, buy some more stocks. If the bull takes control, it's time to sell a bit of your stock portfolio.

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