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• One Man's Opinions – Summer 2018

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Note to my readers: I will continue these quarterly educational missives. However, going forward I will publish blogs one to four times a month rather than weekly. It will depend on what is going on in the financial world. I hope you will continue to value and enjoy them.

What now? I sit here on the first business day of the second half of 2018 basically pleased that the stock market is more or less "flat" so far this year. The Standard and Poor's Index is up 2.6% and the Dow Jones Industrials are down 0.7%, a draw ito my mind. The latter averages are somewhat notable in that General Electric, part of that average since 1886, was dropped last week, and replaced by Walgreens Boots. GE went up and Walgreens Boots went down. Go figure!

I learned long ago to ignore the day to day gyrations of the stock market. Indeed, I think one should ignore it month to month as well. The secret to making money in the stock market is largely "to be in it!" Over time stocks return 9-10% annually. Watching from the sidelines is a no-no, and surely will cost us in the long run

I recall meeting a very nice couple on one of my lecture cruises. He was a very astute business owner, and had the good instinct to sell out his entire portfolio in the fall of 2008 when the bad news about the economy first surfaced. He stayed out of the market during the entire "Great Recession" of 2008-10. Then, despite my occasional pleading phone calls, he also stayed out of the market throughout the recovery of 2010-14 while the market gained 400%. I stopped calling. I cannot remember any client I ever had who sold out (usually near the bottom) and then got back in time. So I now recommend "riding it out."

In the 12 months following the end of a severe bear (down) market, a fully invested stock portfolio has averaged a total return of 37.1%. But if the investor missed the first six months of the recovery by staying in cash, their total investment return was just 7.6%. The stock market goes up about 75%, and down around 25% of the time. Our emotional problem is to stay the course so long as our holdings still meet our long term goals.

I tell my audiences to "buy good stocks and hold on to them. But "weed the garden twice a year." Inevitably some investments disappoint us. Holding on to them, "waiting to get even," is usually a bad idea. If a position no longer meets the potential for which you bought it, get rid of it and go to another that currently better meets your goals.

We humans, at least most of us, are wired emotionally to hate losing five times as strongly as we love winning. Hanging on to a stock which no longer meets our long term goals can best be described as foolhardy.

Volatility in the stock market makes most of us nervous. Our emotions would prefer a market which moves slowly upward. Unfortunately our fellow humans, and sometimes we ourselves, get rattled when the unexpected raises its ugly head. We tend to sell when we should not, and buy when the move up is almost over.

There are no real secrets to managing volatility. The wisest way to manage stocks is to have a good long term plan and a well-diversified portfolio. Often though, sticking to these fundamental beliefs is easier said than done. Sometimes, in the heat of a market decline, we begin doubting our beliefs and believing our doubts, which can lead to short term moves which divert us from our long term goals. This is where an advisor whose training and experience has taught them to ignore their emotions and stick to what historically has proven to be the best course can help. For most of us it was an expensive lesson. I suggest avoid paying for it yourself.

One way of offsetting our emotions is to “dollar-cost average.” This simple program can reduce anxiety by committing a fixed amount of money at regular intervals to a stock, a selection of stocks, or even an entire portfolio. With this strategy you automatically buy more shares when the market is down, and fewer when it is up. The average price paid is thus always less than the average price. Such a plan does not guarantee a profit or eliminate risk, nor does it protect against a declining market. It simply lowers our anxiety.

Regularly “weeding the garden” also leads to less anxiety. We should ask questions of ourselves, as well as our financial advisors, regarding diversification, (is my portfolio adequately diversified and balanced?); risk (is every position in my portfolio still appropriate to my goals and risk tolerance); and are there personal changes to our life.

In these quarterly articles and interim blogs I have long preached keeping a long term perspective; ignoring the financial press, printed, radio, internet, and TV, as well as a vast number of financial publications. The problem is most of these sources are dedicated to reporting investment news 24 hours a day, seven days a week. While nearly all of these provide a valuable service to a small minority of market “players,” they typically offer a very short term outlook; day, week, even hourly. We ordinary investors normally should adopt longer term perspectives. And while you are at it don’t forget to “weed the garden” a couple of times a year.

With all the rapid changes in our economy and in the investment markets, many investors would benefit from more consistent guidance. We are currently accepting new financial planning and investment management clients, and would appreciate your referrals. Please forward this blog post to them or invite them to log into my website at www.tommcallister.com. Call for details at 317-571-1112.

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