

VIKINGS WILL WIN THE SUPER BOWL!

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Like trying to pick the Super Bowl winner on draft day, attempting to time the ups and downs of the stock market is comparable to a roll of the dice. Even the smartest of investors cannot be 100 percent sure of the outcome. Time in the market – not timing it – may be a wiser strategy.

Market timing is the strategy of making buy or sell decisions of stocks or other financial assets by attempting to predict future market price movements. In other words, buy when the market is low and sell when the market is high. It sounds simple when described that way, but it can be a losing game for professionals as well as investors. No one has a crystal ball that works all the time. Bubbles can linger longer than anyone expects, just as corrections can fail to bounce back in as timely a fashion as some investors would have preferred. We have seen some major market swings in the last three years, and the major cash flow out of stocks occurred in the first quarter of 2009. That also happens to coincide with the market low of March 2009.

If you Google “market timing” you will get hits and Google ads for marketing timing services, many promising unbelievable success; one I checked showed they had turned \$10,000 into \$10 million since 2001. If it is that easy, why don't Bernanke and Geithner sign up for this service and pay off the national debt.

“Time in the Market” is the key to success in investing, looking back over the last 30 years ending December 31, 2008, close to the bottom of the market; \$10,000 would have grown to \$229,000. That is 360 months, if you had missed the 5 best Of 360 months you would have reduced your results to only \$135,000; more than 40%.

A wiser strategy is to buy and hold your investments over a long period of time. This allows you to participate in the best days of the market, and you will have the power of compounding working for you. Develop a diversified portfolio that meets your needs and tolerance for risk; diversification also helps smooth out some of the ups and downs of the market, but that is for another newsletter. There are two times that you should change your portfolio. First is when something changes is your life, and second is when your portfolio becomes out of balance; one asset class moves at a different rate than others.

Annually, review your portfolio to make sure your asset allocation is still on-track to help you meet your financial goals. As your needs change you may want to rebalance your portfolio to ensure that you have the right allocation of investment assets. A study by Brinson, Singer and Beebower showed that 91.5% of the return of a portfolio is asset allocation, while market timing was 1.8%. Asset allocation, not market timing, most significantly determines your portfolio performance.

Investors should have a written plan with regard to how their portfolios are allocated and managed. I believe a diversified portfolio of low cost index funds, with periodic rebalancing, keeps our emotions from ruling our decision making and will result in the largest market return over the long term.

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What are some tips for making the most of my 401K?

First and foremost get signed up and start making contributions. Contribute at least the amount to get any company match.

Second, develop an allocation that is appropriate to your risk tolerance and age. An allocation of 90% stocks for a 25 year old may be good, but by 55, you may want to reduce that allocation to 50%-65%. Then rebalance your portfolio at least once per year. Over the long term, stock and bonds rise and fall in different patterns, therefore if you rebalance back to your original allocation, you are in effect selling high and buying low.

Third, don't take money from your account. If you change employers convert your 401k to an IRA. Don't use your 401K account as a piggy bank. Not only will you be destroying your retirement plan, but you will have to pay taxes and most probably a penalty thereby reducing any future growth from tax free compounding.



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