

Safe Money Advisory



Many Plan a Market Exit But...

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If you have money invested in the market, chances are very high that you have a loss. In talking to savers and investors like you, I'm amazed that they all tell me the same thing: "As soon as my investments get back to where they were, I'm getting out of the market". Let's give some thought to this exit strategy.



First, by saying "as soon as" or "when" the market recovers, you're making an economic forecast. How do you know the market is going to recover soon, or even in your lifetime? People were saying the same thing in 1929 but they didn't get their chance to exit at breakeven until late 1954 – 25 years later. In case you think the great depression was an anomaly, look at the market averages in late 1969 and compare them to late 1982—the DJIA at the beginning of this thirteen year period was the same as at the end. As this is being written in 2009 the DJIA is at roughly 8000 – the same level as 1997. So if you say "when the market comes back to where it was", exactly what time frame did you have in mind? One more thing – if you adjust for inflation, the picture gets a lot worse. If you're over age 65, do you have enough time for the market to recover? Even if the market does recover in ten years, will your money still purchase the same as before?

So what makes you think the market is coming back during your lifetime? Maybe that's what your stockbroker told you... wonder if she might have an ulterior motive like losing control of your money – which means lower future commissions – or saving face? Regardless, you should pay no attention to her "forecast" because obviously she didn't know the market was going to meltdown or you would have been warned. So, what makes you now think your broker knows when it is coming back? The fact is: no one knows when, or if, the market will recover. There are many forecasts, i.e. guesses, but no one has a crystal ball that tells the future.

So what should you do? Start by answering this question: "What will I do if the market continues to meltdown and I lose half of what I now have?" If you think this can't happen, you can stop reading. If you don't like the answer you gave, then maybe you should think about getting out of the market or reducing your exposure. I know, you'll be turning paper losses into real losses – or maybe you'll be avoiding more losses. Or, if you get out now, you'll miss the coming recovery (don't forget, no one knows when the market will recover). Yes, I know it would hurt to take your losses... but, if you still have enough for an acceptable retirement, you need to be realistic about the hard decision you face. Maybe locking in a guaranteed lifetime income with what you have left is the way to go. Yes, this is very easy to do by depositing your money with an insurance company that can protect you from longevity risk (that's the risk of outliving your money).

The foregoing is not the advice you're getting from those that sell stocks, bonds, mutual funds, variable annuities and other market investments, or charge you a percentage-of-assets to manage your money. If you exit the market, they lose commissions. What's more, those that sell such investments have drunk the Kool-Aid brewed by Wall Street. The brokerage industry has been exposed: they've even mismanaged their own money. Nonetheless, there's no shortage of pundits preaching "market is coming back and now is the time to buy at bargain prices". Unfortunately, among the believers are those who least can afford the risks. You'd be well advised to not "drink their Kool-Aid" -- instead work with a financial advisor who offers solid advice about the safe money options available.

**Shelby J. Smith, Ph.D.
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