

Safe Money Advisory

Market Myths that Sway Investors

**For Immediate Release
Houston, Texas**

As this is being written, the market is surging upward by 200 points – this comes after a matching downward spiral a few days before. Some sages say the market's headed higher while other pundits say lower: my position is "you know, you never know". The recent movements in the market are stomach churning for those in retirement's red zone or already retired. This group is tired of speculating, too short on time to recover from another meltdown and fearful of outliving their money. Notwithstanding these concerns, the risk averse stays in the market because those benefiting by investing other people's money have used myths to keep them there. Let's review several myths used to keep you coming back or stop you from leaving.



In the long run you'll be better off in the market because it lets you participate in the growth of the economy! In April 1999 the market, as measured by the Dow Jones Industrial Average ("DJIA"), was at roughly 10,500, the same level as today. Anyone caring to compare an economy's growth, either domestically or internationally, to that of the stock market will learn that the two often go in different directions. This fact is firmly established by Japan's experience since 1989 and America's from 1969-1982. What is "long term" varies by individuals but history indicates (a) you may be worse off a decade from now and (b) death also comes in the long run.

Stocks on average return about 10% a year! Even if this were true – which it isn't – you'd have to buy and sell when prices are average. If you buy at a cyclical peak or sell in a trough, your return will likely be negative. In January 1970 the DJIA was 810. If the 10% rule were true, the market should currently be at 37,000 – the present 10,500 is far short of this mark. Over this period the annual growth rate has been about 6.6%, and roughly half of that has been due to inflation. Is the elusive 10% myth worth the risk?

Now is a good time to buy, or selling turns paper losses into real losses! A good time to buy is before prices rise: but who knows when prices are going to rise? If there is a good time to buy, there must also be a good time to sell! Your broker probably didn't tell you that October 2009 was a good time to sell. If brokers don't know the good time to sell, what makes you think they know the good time to buy? Asking a broker the good time to buy is like asking an umbrella salesperson the weather forecast! Brokers never tire of using economic forecast to support their buy recommendations – especially when business is slow. As an economist, it pains me to say "economists make fortune tellers look good".

The best way to avoid risk is a diversified portfolio of mutual funds! There's a zillion types of mutual funds – large cap, small cap, mid-cap, growth, income, balanced, international, socially conscious, sector, etc – but all have one thing in common: they rise and fall together with major moves in the market. All mutual funds sank like a rock from October 2007 to March 2009, and rose smartly through year-end 2010 but have stalled since. As the Great Recession punctuated, the global economies are interlocked and move in unison. Mutual funds are always 100% invested in the market.

To manage your retirement money wisely, you must consider options and strategies that do not require you to "time the market". It's a fool's errand to try and catch the market's unpredictable bounces and turns. Your strategy must also include not running out of money in retirement. So rather than committing all your retirement money to the market, consider moving that amount "essential for your retirement lifestyle" into a guaranteed lifetime income that you cannot outlive. Yes, this strategy does exist because as the ranks of the retired have grown, the insurance industry has crafted ways to protect you financially from living too long. Ask your financial advisor to explain how an annuity delivers a safe, worry-free guaranteed lifetime income.

**Shelby J. Smith, Ph.D.
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