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Take systematic approach to your investing

By Neal Frankle
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When I was a kid, Kenny Rogers used to sing about knowing when to fold 'em and when to hold 'em. Many stock market investors are asking themselves the same question today.

As of the writing of this article, the stock market has been kind to investors but how long will that continue? Many investors are asking themselves if now isn't the time to pull out. After all, why tempt fate?

First, I think we all have to admit that nobody really knows how high or low the stock market can go in any particular time frame.

Look at the Dow Jones Industrial Average. The index topped 11,700 in March 2000. A year later, it was below

10,600, a more than a 9.4 percent drop. Was it the low point? If so, was it time to invest more?

Not unless you like to lose money. Investing in a falling market can be like trying to catch a falling knife. You take a chance of getting a very nasty cut and bleeding to death.

By September 2002, the index had swooned to less than 7,530, a whopping 36 percent loss from the high point. Was this the low? As it turns out, yes. But there was no way to know at that time.

Within 12 months, the market clawed its way back to more than 9,500, a very nice 26 percent gain. Was it the high and time to sell? No. Recently the market reached an all-time high by exceeding the 13,000 level.

You can learn a great deal from these events. First, nobody knows when the high or low has been reached. Second, it can be very costly and frightening to buy and hold. The investor who bought and held from 2000 though 2007 endured a 36 percent loss in his portfolio. If that wasn't bad enough, after holding on for seven years, he had a compounded return of only 1.5 percent per year.

What's all this got to do with knowing when to hold 'em and when to fold 'em? Plenty.

We can see from the data that it is critical to protect yourself against catastrophic losses. By the same token, we can see the dangers of trying to invest based on our emotional assessment of the market. How do we reconcile these two problems?

I believe that the solution is for you to take a systematic approach to your investing. "Take the market's temperature" and invest when the market shows strength. When the market shows weakness, refrain from investing. So, don't cash in just because the market is high. Hold on to your investments until the market shows weakness. In other words, let the market tell you when to cash in your chips.

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How do you do this?

Based on 70 years of research, we know that the best way to do this is to simply track the volume and price changes of the stock market indexes. When the major indexes start selling off on high volume look out. Time to protect your assets.

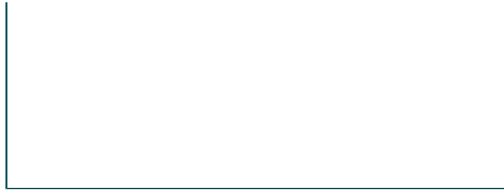
When the market indexes advance on higher volume, consider investing more.

Also, watch the market leaders. Are they strong or weak? There has never been a bull market to take off without strong stock market leadership. In addition, every bull market has been preceded by strong market indexes advancing on strong volume.

Its important for you to understand that this is not perfect. Using this formula, you may zig when you should have zagged. And I'll be the first to admit that those "mistakes" will cost you money. Using this method, there will be times when you sell and buy at the wrong time. Nothing is perfect. But these "mistakes" usually won't cause you to incur devastating losses. Nor will they usually lead to a prolonged absence from a good market.

However, holding on to your funds too long or staying out of the market too long could in fact cost you your financial future.

Neal Frankle is the author of "Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity." To receive a free report on how to hire the right financial adviser, e-mail him at Neal@WealthResourcesGroup.com.



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