

# The Dangers of Buying and Holding

By Neal Frankle, CFP®

**M**aggie and Sam called my office last week, and I could hear the desperation in their voices. They've lost more than \$1 million in the stock market since 2000 by "investing conservatively." Their broker assures them that buying high-quality mutual funds and holding onto them through rough markets will grow their money safely. Yet they can plainly see it isn't working. In fact, they've watched a serious decline for a while now, and they're starting to panic.

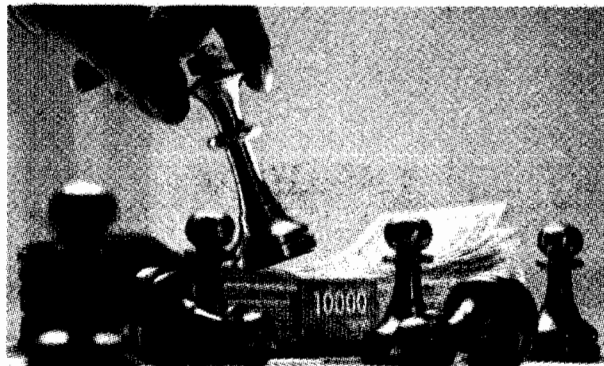
Their problem is not earning money to fund their retirement dreams. Both Maggie and Sam are each smart and successful: She is a heart surgeon and he is a well-heeled attorney. Yet, they've lost a fortune, and they can see that no matter how much they earn, it can't possibly offset the damage done by listening to the advice of their broker. They've turned to me to stop the bleeding.

They aren't the only intelligent, affluent investors I've met who are frustrated and frightened by their investment results, and 2000 wasn't the only bear market investors had to face. Based on 60 years of evidence, a bear market ravages investors every 3.3 years, and the average loss is 27%. That's enough to scare anyone. According to AARP, 35% of all retirees go back to work after they retire. Could it be because the market cracks and scrambles their nest eggs?

I'm reminded of my Uncle Jim, who wouldn't listen to me and retired in 1999 with \$700,000. His plan was to create income from his retirement package and to live happily ever after. Interest rates were too low for Jim, so he decided to invest in growth mutual funds to create the income he wanted. By the end of 2002, his \$700,000 had dropped to less than

\$400,000 thanks to an inhospitable market. His savings had lost 43% of its value. Then, instead of \$700,000 working for him, he had \$400,000 working for him. That meant less income—a lot less income. Faced with this disturbing reality, Jim sold his beautiful home to buy a small condo and had to go back to work. Jim didn't have 70 years to "think long-term" as his broker and other financial "experts" suggested he should. Jim needed that income today.

What can Jim, Sam, Maggie and everyone else do to protect themselves from catastrophic loss in the future? Since we know that a crash comes every 3.3 years on average and the typical loss is over 27%, it is critical for investors to invest only when the risks of doing so are relatively low. Of course whenever you invest in the stock market you take on risk. However, we know that certain times are riskier than others. Just as you check the weather forecast before you embark on a road trip, I'm suggesting that you check the market's temperature before you hit the financial road.



There are a number of ways you can do this. The method I like best is watching the major indices, such as the Dow, S&P 500 and the NASDAQ. **Here are the specific steps:**

1. I look for days when the volume explodes. For example, if the DOW trades an average of 2 billion shares daily, and today, the DOW trades 2.2 billion shares, this represents a significant increase in shares.

2. When this happens, I pay attention to what happens to the price of the index. If the DOW closes higher than average today, I know that large institutions are falling over themselves trying to buy shares, which means prices are moving up.

3. We know that one sign of a healthy market is a big increase in shares traded, coupled with the index moving higher. In fact, there has never been a bull market stampede without a big increase in trading along with an increase in the index price. If I see two or more of these strong days, I'm more prone to invest.

I strongly suggest that you watch the major indices for clues on the market's health before you invest. I'll be providing more specific tips on how you can "take the market's temperature" next month, most notably how you know when it's time to stop holding and sell.

*Neal Frankle is the author of Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity. He helps affluent clients establish and implement a safety-net strategy to protect their wealth. He also helps other professionals, such as CPAs, to do the same thing for their clients. For more information, email: Neal@WealthResourcesGroup.com or visit www.wealthresourcesgroup.com..*