

Affluent

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Why Is the Stock Market So Stupid?

By Neal Frankle, CFP®

He was 100 percent committed to getting his question answered. Jim grabbed my arm and gently pulled me to the side of the podium immediately after I'd finished my speech. He practically shook with quiet desperation as he asked me, "Why is the stock market so damn stupid?"

"What do you mean?" I asked.

"I'm a successful CPA. I've consulted for multimillion dollar businesses and helped them navigate some pretty rough water. I sold my practice in early 2003 for \$3 million and looked around for a good place to invest. I was considering the market, but then I decided against it.

"I mean, I received that \$3 million in March, and this was right before the United States went to war in Iraq. People were afraid that Saddam Hussein would respond with nuclear or chemical weapons and the whole world would be engulfed in conflict. On top of that, the market had done very poorly in 2000, 2001 and 2002. And to put the cherry on top, I read about CFOs and CEOs being indicted for fraud every day. I decided to put my money in the bank."

"You thought it wasn't safe to put your money in the market," I offered.

"Right," he continued. "With all this bad news, the market should have cratered -- but it didn't! I don't get it: The market did extremely well. The S&P was up over 25 percent in 2003 and the NASDAQ was up over 50 percent.

"So, since I know I'm no dummy, the market must be stupid ... right?"

I'll tell you the same thing I told Jim. But first, let's fast forward.

Think about 2005. Energy prices spiked 40 percent last year. The Fed raised interest rates nonstop. Katrina and other disasters plagued the United States and the world. Political scandals filled the nightly news. Real estate prices seemed to be topping

out. The war in Iraq continued and Bin Laden still haunted the free world. What an awful state of affairs, right?

Anyone in their right mind would be hesitant (at best) to invest in the stock market given these conditions. Especially you. You're an *affluent* person who has achieved success in life. If anyone should understand when conditions aren't good to invest, it should be you.

So why didn't the stock market tank in 2005? A market nose-dive would have made more sense than the actual lukewarm performance turned in by the major indexes. The stock market must be stupid to ignore all this bad news.

Some pundits might try to explain that the market still managed to stay above water last year because interest rates, while rising, are still very low by any historical measure. They might continue by explaining that worker productivity has countered inflationary pressure caused by rising energy costs. And they would point to broad economic expansion across the globe to try to make the point that the market is about ready to take off like a rocket.

In fact, if you focus on these truths, you'd be hard pressed to explain why the stock market didn't blossom last year. In this case, too, the market must be an idiot to ignore what's really going on out there. Confusing, isn't it? What should an intelligent, successful, affluent investor do? If you've been reading my column, you'll know that the answer is to ignore all of it. As I point out in my book, *Why Smart People Lose A Fortune*, it's usually a big mistake to try invest based on what you perceive is happening politically, socially or economically.

Who could forget the devastation of 9/11/2001? Do you realize that the market was higher on 10/10/2001 than it was on 9/10/2001? How do you account for that? Does that make any sense to an intelligent person? How could the market shrug off, within 30 days, the worst attack on American soil? Forget idiot, the market must be blind and insane!

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Certainly, I understand why some people feel that the market is crazy, but I suggest that those people reconsider.

Recognize that when you invest based on your opinion about how the present will impact the future, you're making predictions. And, believe me, nobody can predict what the stock market is going to do. While most financial writers agree with me, they recommend investors should not only ignore the market but also invest for the long-term. That's not what I'm suggesting at all. Please hear me loud and clear -- this is like standing in traffic expecting all the cars to zoom past without incident. Please do not do this.

In the coming months, we'll revisit the dangers of buying and holding investments and the alternatives that can save you from losing a fortune.

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, do the same for their clients. To receive a free report on how to find the best funds, contact him by sending e-mail to Neal@WealthResourcesGroup.com or visit the website www.wealthresourcesgroup.com.

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