

February 21, 2008 – Commit to an Investing Approach

As the world stock markets continue their decent, it is important to examine our own personal investment approach. Your personal style could be passive buy and hold or active management. It is my personal feeling it is important to stick with whatever approach best suits your own personal needs.

The passive investment approach gained enormous popularity in the '80's and '90's as the greatest bull market in world history took portfolios up, up and away. The buy and hold approach worked as well as could be expected as investors watched their portfolio's go up faster than many could imagine. Of course, at the turn of the century something changed and investors saw three consecutive years of significant losses. For many investors, the losses eventually lead to amounts many people could not handle when many tech-heavy portfolios lost 70% or more. Many of these people sold in 2002 as many of the dot-com's folded up shop and investors gave up because they could no longer stand the pain.

Then came the market bottom in the 1st quarter of 2003 when the S&P 500 turned around and shot up over 40% within one year. What should have been great news, turned out not be the case for many of the buy and hold crowd who got out during the downtrend with no plan of how to get back in when the downtrend ended. What was actually a great rally, turned out to be of little help to those who gave up on their approach. They pulled their assets out to stop the bleeding and were not there for the rally.

The popular perception is that active management is speculative and passive management is conservative but this is a myth. I believe the opposite is true. There is no compelling evidence that holding stocks for the long haul is the best way to achieve long-term investment success. There are times when this is true but there are many other times when this is simply not the case.

The important rule to remember is to not lose so much money that you end up abandoning your investment approach in mid-stream and miss a key turn in the market. Those who jump back and forth between investment styles tend to do so at the wrong time and end up doing quite poorly over the longer-term.

I am much more comfortable with an active approach. Passive investing may work, given the right set of circumstances. But in uncertain times like today, where credit markets are in disarray, the housing bubble is bursting, consumer credit card debt is almost \$1 Trillion, our home values are plummeting, unemployment and inflation is on the rise... I personally could not sleep at night knowing my assets were exposed and I had no plan on moving them should the stock market downtrend strengthen. There are some who believe the problems in the credit markets are so bad that the economy cannot be saved and this bear market will be worse than 2000-2002.

So when choosing what type of investment strategy works for you, ask yourself if passive investing, which by definition accepts losses of any magnitude, is really appropriate for you.

So pick an investment approach and stick with it!

All information, data and contents are obtained from sources believed to be correct but reliability cannot be guaranteed. Past performance is not indicative of future performance. Readers of these comments should not take action based on information contained. Comments could pertain to time periods or to trends which are not expected to persist, or could refer to actions not commensurate with other individual's level of acceptable risk. Returns are completely hypothetical and are no indication or guarantee of future results.