Making and Keeping Money

It is Friday, January 24, 2014 and the Dow Jones Industrial Average was down 318 points for the day. People who watch the stock markets around the world will look to answer the question why the market went down this much in one day. My only answer to this is that more people showed up wanting to sell their stocks today than the number of folks who showed up wanting to buy.

Of course there will be comments about bad news coming out of China and some companies like Best Buy reporting earnings disappointments for their 4th quarter results. Still, on almost any trading day you can find news suggesting you should buy and news saying that you should sell. On any given day it can be very hard to decide whether it is the right time to buy or the right time to sell. Studies suggest that trying to time the market most often is an exercise in futility.

Cheap or Expensive?

So much of whether a stock or a bond is selling at an attractive price depends upon what will happen in the future. Will a company's fortunes increase in the future? Will interest rates increase or decrease? Will inflation have a big impact or not be very important? Will the dollar be strong or will foreign currencies be stronger? Will government spending leave room for the economy to be vibrant?

One set of answers to these questions would make it a great day to buy and a different set of answers would make it a good day to sell. So if it is difficult to tell, then how do we go about making money where we can avoid taking too much risk and still have a chance to see our investments grow? One thing we do know right now and that is we are being paid nothing or next to nothing in savings accounts and money market accounts. So, these often considered "safe havens" would not seem to be of much help currently.

Thinking Long Term

The first answer lies in not letting big days in any market rattle you. If you look at 10 year or greater time period charts, covering almost any market, the ups and downs of any day or week can often be very hard to see. Keeping market moves in perspective is very important, especially when things go down.

Between March of 1998 and March of 2008 stocks provided almost no return, yet over the next 5 years they have done very well. Looked at one way, the market decline scared most investors. Looked at another way by other investors, with longer term thinking, it presented a great opportunity.

Diversifying
Years ago clients were pretty much stuck with stocks, bonds and cash issued in the US only. Now we have a host of ways that we can access tools to help clients broaden out their investments. The key here is to combine investments in a way that smoothes out the ups and downs and reduces the risk that investors can have if they concentrate in one area too much.

Regular Investing
One other way to smooth out the ups and downs is to buy or add to investments regularly. Regular periodic purchases help you lower the average cost of your investment, as you will naturally buy more increments of any investment when the purchase price is lower.* One other thing you will notice, that is really interesting, is that unlike going to the store, it is often emotionally hard to buy an investment after the price has gone down, that is after people have lost money in the investment. Even though the lower price may be an opportunity, our emotions make us more fearful because of the recent price drop.

Bottom Line
It is impossible to take our emotions out of investing. These assets represent our financial security and wellbeing. This being said, we need to reduce any negative impact that emotions might have on how we invest. There are a few principles that help with that. If we think long term, diversify and set up a way to invest regularly, we set things up to increase our chances to succeed in reaching that financial security and wellbeing.

Your Feedback
I would love feedback on this newsletter. Future issues may include a host of good ideas, insights, specific steps to take financially, life insights and of course "Wit and Wisdom". Most importantly, I'd like it to be of value to you and to encourage an exchange of great ideas and insights. Please send your feedback to:

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* Dollar cost averaging involves continuous investment in securities regardless of price fluctuations of those securities and does not guarantee a profit or protect against loss in a declining market. Investors should consider their financial ability to continue their purchases through periods of low price levels.