

Adapting to today's investment climate

Darwin said it best: "In the struggle for survival, the fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment."

If he were wrong, dinosaurs would still dominate the earth.

In my opinion this adaptation axiom is very important to your success as an investor. If you are one of the multitudes who were invested in the S&P 500 on Dec. 31, 2008, you had the terrible experience of seeing 10 years' worth of growth in your account disappear. Then, between New Year's and March 9, 2009, you saw your account drop another 25 percent. You are older than you've ever been and just had the financial jolt of your lifetime — so your goals, objectives, risk parameters, etc. may have changed.

First you must ask yourself "is the stock market a legitimate place to invest your money?" A prudent answer may be no. However, if you want to maintain pace with inflation in order to maintain your lifestyle over time, you have to do something. Going broke safely in a low-yielding "safer" investment is not a suitable choice either.

So let's assume that you've determined what rate of return you need to meet objectives. Hopefully, you can make reasonable assumptions about taxes and inflation and require a very low rate of return on investments. But if not, you may need to include an allocation to the stock market in some form (for

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inflation protection). I think the "new normal" will require that you abandon the buy, hold, and hope strategy that most of us utilized in the past.

We have to implement a specific investment process. We must have a "sell discipline" that provides some sort of "advance and protect" strategy enabling us to protect gains (which we should enjoy from time to time). Most credible experts agree that the stock market will trade in a range for the next several years. Most agree that it is very hard to predict where any measure of the market will be (say the S&P 500) at any specific time, but Warren Buffet himself thinks there are many companies both in the U.S. and abroad that will deliver great gains.

However, it will do you no good if you get to feel good occasionally when your account grows, only to give it back in a downturn. Regretfully, right at the time you wish for peace and tranquility in your life and your investments, you will likely receive increasing volatility. You must have a "sell discipline" in order to periodically protect your gains.

More specifically, you must con-

stantly take positions by responding to opportunities and conditions as they develop, making a habit of selling over value and early weakness. Those who do will likely have a life dominated by a sense of peace and control. This doesn't mean you always know what will happen next. Rather, you will be able to accept what happens next, knowing how to respond whatever the outcome. The point is to live in reality and take action from where you stand. You cannot ignore the inconvenient aspects of reality in the hope of justifying your position — wishing for your starting point to be somewhere else. Perhaps the greatest source of human frustration is the desire for reality to be something other than it is.

Buy, hold, and hope is dead. You've got to have a defined investment process. You must advance and protect. You've got to have a sell discipline. If you don't have one, contact a proven investment professional who can guide you there. Remember that no strategy will ensure success or guarantee against loss.

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The Times – September 7, 2009