FINANCIAL FRIDAYS

Issue 2

A SIMPLE TIP- WHY DIDN'T MY BROKER TELL ME THIS?

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Welcome back, SCRT fellow members. Last week, I teased a tip about investing that you will never hear from your broker. Well, I'm not one to lead you on, so here it is:

"DOLLAR COST AVERAGE, BUY AND HOLD, LIQUIDATE WHEN YOU RETIRE."

Three short catch-phrases, three simple concepts, three tricks of the trade. What do any of these things mean, and how can this be the magic bullet?

Let me explain each one individually, and then when they come together, you will get the concept.

First, let's address the concept of "**Dollar Cost Averaging**." This is based on a simple fact of life: none of us, no matter how brilliant we tell everyone else that we are, can always pick the bottom of a stock, a cycle, or a market. We will often buy a stock that looks great, only to have it go down right away. In addition, rarely do we have ALL of our investment money at one time. If you are like me, I scrape together some long-term savings money each week or month as I collect it, and then want to put it to use as I receive it. Dollar Cost Averaging allows us to make solid, long-term decisions on companies that we want to invest in, and then make periodic purchases of that stock over a long time frame. If the price rises as we buy, our average of that stock over time will be lower than its current price. If it falls as we buy, we are now buying a valued stock with good long-term perspective for a cheaper price than when we started. Over time, if our initial analysis of the stock is correct, both methods will give us a great profit.

Second, let's tackle the concept of "**Buy and Hold**." This one is more straightforward. It is as simple as it seems- buy stocks with the intention of NOT selling them over time. Every statistical study you can find proves that, over long time frames, holding onto stocks through good and bad periods results in far greater returns than trying to "time" the points to get in and out. Aside from the commissions you will pay to get in and out, there are tax implications every time you liquidate a stock. All of these go away if you simply buy and hold. We have all heard of Warren Buffett. He made his billions by investing in good companies and holding onto them over long periods of time. He didn't react when things got rough- in fact, many times he bought more of that company's interests (Dollar Cost Averaging), and each time was rewarded for his discipline and patience.

Finally, we get to the phrase "**Liquidate When You Retire**." This is the most controversial of all of the tips. Most advisors will want you to keep your portfolio with them and convert it into plans that generate massive fees as you withdraw funds. Instead, you should get out of the stock market entirely! When you get to the point that you will be using the funds, you cannot risk the chance of a downturn that will drain YOUR money from the account. Move your money from stocks to safer investments, like bonds, that can ensure their value in the future.

Continued success!