FROM THE FINANCIAL ADVISOR WHO CALLED THE 2008 STOCK MARKET CRASH

KEN MORAIF, CFP®

BUY, HOLD, AND SELL!

THE INVESTMENT STRATEGY THAT COULD SAVE YOU FROM THE NEXT MARKET CRASH

WILEY

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For my mom, who taught me how to save and invest, and made me who I am today.

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Introduction

One Bear Market Can Change Your Life Forever

How would you feel if you lost over 78 percent of your retirement investments in one bad market?

I'd been doing a weekly radio show for four years when I was asked to speak at the "Managing Your Money" conference in Arlington, Texas. After my presentation to some 4,000 attendees, I walked offstage to find a man in his late fifties waiting for me. He said, "Ken, glad to meet you. I listen to your radio show every week."

"Thanks," I said, shaking his hand.

"Do you know how much money I had before this last bear market?"

This was 2002. The tech bubble had recently burst. I was afraid this was going to be a sad story. "No," I said, "how much did you have?"

"Three million dollars."

"Wow, that's great," I said. "Congratulations."

"Do you know much money I have now?"

I shook my head, bracing myself.

"I have $650,000."

I remember looking at the man. I couldn't believe he was standing, let alone smiling. "But tell me," I said, "To go from $3 million to $650,000, you had to see your investments drop to $2.5 million, then $2 million, then one and half…There were signposts along the way. Why didn't you get off the ride?”

And he said, “I had every intention. I planned to get out if my investments ever dropped down to two and a half million. But when they went down that far, I thought to myself, ‘I'm down $500,000. I can't sell now. That'd be ridiculous.’”

I had the feeling I knew where he was going.

He continued: “So I drew a line in the sand: If my investments went down to $2 million, I'd sell for sure. But when they sank to that point, I did the same thing. I said to myself, ‘Oh no, I'm down $1 million. I can't sell now, because the market will come back. I don't want to be the fool who sells at the bottom.’”

He went on. “Everybody was telling me that the market was going to bounce back. I didn't want to miss the rebound.” He shook his head. “I never got out. I rode the market all the way to the bottom, and lost more than 70 percent of my money.”

I wanted to say something encouraging to this poor guy, so I said, “I admire your ability to smile.” I meant it.

“I could smile, or I could cry,” he said. “I choose to smile.”

The Inspiration behind This Book

I don't want you to end up like that former millionaire. I want you to smile because you're playing with your grandkids, perfecting your golf game, or dancing on the beach with your spouse. I don't want you to have to go through the pain of losing the retirement you've earned. You worked hard, and you've looked forward to this time in your life. I want it to be the best time in your life. I want your retirement to be like your second childhood without parental supervision.

And I want to help you get there. I want to convince you of the need to buy, hold, and *SELL*. In today's financial world, you face volatile markets, huge deficits, and even the risks of governments going bankrupt—all of which add up to the possibility of huge losses. With those prospects, I think it's just plain irresponsible to simply ride the market. You need to have a proactive plan that includes a sell strategy.

But it's not easy. You've probably heard the same advice the unlucky investor followed. “The market will come back. Don't be the fool who sells at the bottom. You don't want to miss the rebound.” It's popular advice. If you Google “investment advice,” you'll probably find information that tells you to “hold forever” and “just diversify.” I've worked as a financial advisor since 1988, and have heard these buy-hold myths propagated on the investing public over and over again. Sometimes I've heard them from people like the man in the story; investors who believed in the myths that later destroyed their retirement dreams.

In Part One of this book, we'll discuss the reasons why buy-hold is a bad idea. In Part Two, we'll debunk the myths that may keep you from being proactive. In Part Three, we'll explore the ways to use a sell strategy. And we'll have some fun doing it along the way, with the help of a few of my favorite TV characters.

By understanding that most buy-hold recommendations are indeed myths, you'll be able to stand your ground when necessary. You'll be able to execute your sell strategy with confidence. You won't be just another placid sheep that blindly follows the rest of the flock right off a cliff.

If you're retired or close to retirement, you cannot afford to be a sheep, or, to mix metaphors, to go along for the ride, allowing your investments to chauffeur you around. You have to be in the driver's seat. You have to be proactive, and very, very disciplined so that you can avoid the losses that could ruin your retirement. Remember the gentleman in our story? If he had stuck to his guns and said, “Okay, my investments are down to two and a half million. I'm out,” he would have felt the pain of losing half a million dollars, but I suspect that was nothing compared to the way he felt when 78 percent of his money disappeared.

Protect your well-deserved retirement. Though nothing is certain in the world of finance, you can take action with your investments, and help avoid devastating losses. The first step? Read on, so that you can arm yourself with the knowledge that buy and hold is really just buy and hope, not a viable investment strategy—especially for anyone over 50.

Part One

The Trouble with Buy-Hold: Why It's Dangerous to Your Financial Health

Chapter 1
Buy and Hold: A Bad Strategy for Anyone over 50?

If you're over 50 and still investing the way you did when you were 35, you're in danger. You may be inadvertently putting yourself at risk of losing your hard-earned money, your desired lifestyle, and even your ability to retire.

You can't take the risks you did when you were younger. You're not in the game for growth anymore; you're in it to protect your principal. You need to protect it from taxes, from inflation, and from bear markets. When you get within five years of retirement, you need to shift your focus to protecting what you have built. It's easier said than done. All of a sudden you have to adopt a mindset that's 180 degrees from your former strategy. The buy-hold philosophy may have even helped you earn your wealth. It doesn't matter now. That strategy is no longer your friend, even if you're the best investor in the world.

Even the Best Investor...

Let's say you *are* the best investor in the history of the world. Over the past 30 years, you've made 20 percent every single year. You're a legend. They erected a 20-foot bronze statue of you on Wall Street. Every day, all the brokers and investors who pass by rub your foot for luck. You've amassed a huge estate—a phenomenal amount of money—and plan to retire in six months. Everything is great, except that it's now January 2008, and you believe in the buy-hold myth. What happens next? You lose half your money in that one year. Even if you end up with a lot of money after the crash, you now have a lifestyle half as nice as the one you were expecting. No matter how much money you have, if you've worked hard to ensure yourself a certain level of comfort, having to cut that dream in half is going to hurt.

Source: Randy Glasbergen.

You now also have the psychological pain of seeing your dreams and aspirations evaporate in front of your eyes. Should you retire after all? Maybe you should delay retirement? At this time in your life, you should not be experiencing this kind of anxiety, stress, or panic.

Buying into the Buy-Hold Myth

If buy-hold is such a dangerous strategy, why do people believe it? Because it seemed to work well for so long. Baby boomers, who account for 26 percent of the total U.S. population, were a large part of the workforce when they were younger. For many years, this 79-million-member generation was working in the labor market and building their retirement funds.

Did you notice what I said? People were *working* and *building* their retirement funds. When you were one of these working and investing people, you lived on the wages from your job while adding to your investment account. Your situation disguised what was really happening. For example, during one year you might have lost 20 percent of your investments, but since you were working, you also added to your account. At year-end, you didn't see a 20 percent loss reflected in your account; in fact, you may have had the same amount of money you had at the beginning of the year (see Figure 1.1). It would have been easy to think, “I didn't lose any money. Buy-hold worked.”

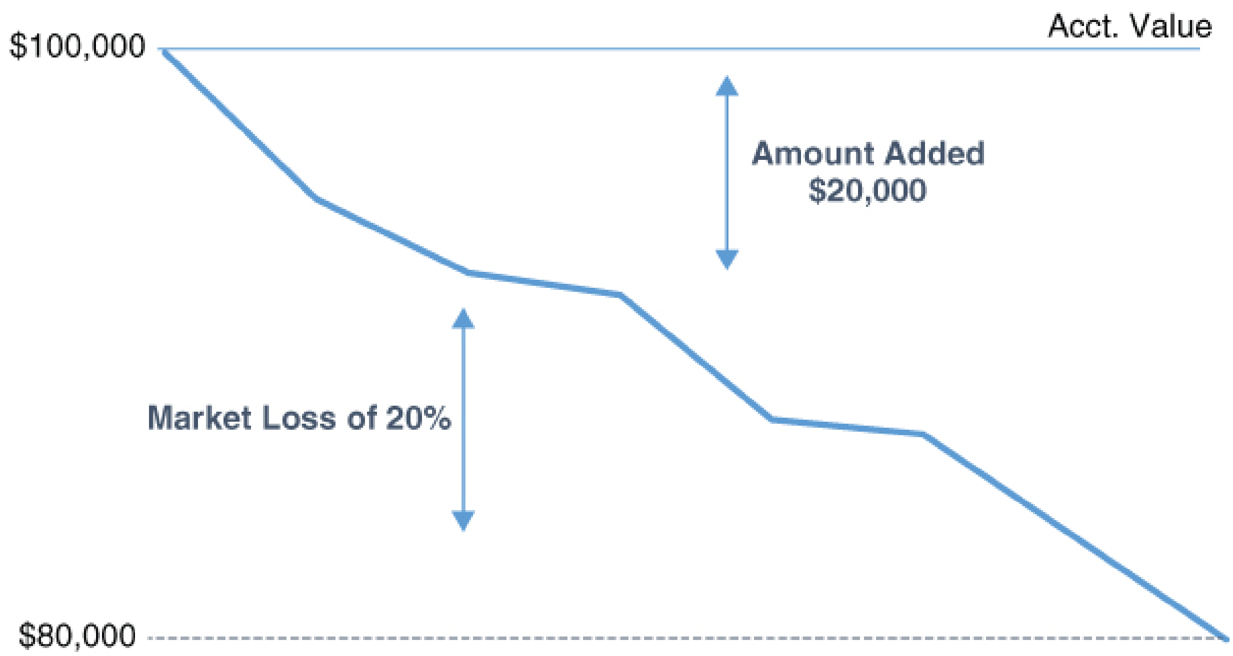

Figure 1.1 Added versus Lost

But you can see that it didn't. You broke even because you added to your investments. When you're still working, you're growing your money. You're putting money in your account. During bad times you're buying low. You're not as concerned about losses as you will be later in life. Being in the labor force muffles the actual experience of losing money.

The buy-hold strategy seems validated when you're working, but its problems are just disguised. When you retire, you'll see the real face of buy-hold. You'll be keenly aware of your losses. If you take out 5 percent for living expenses and then lose 20 percent of your investments in a bad market, you'll be down 25 percent at the end of the year. Your wages won't be there to cover your losses. You won't think you broke even. Worse than that, you'll have to change a few things in your life. You can't continue to live the way you did on just 75 percent of your former income. Look at it this way: Let's say you're still working, and one day your boss comes into your office. “Sorry,” she says, “starting today we have to cut your pay 25 percent.” What would you have to do? You'd have to rearrange your life dramatically to make up for your lost income.

> You can be young without money but you can't be old without it.
>
> —Tennessee Williams, playwright

When you retire, your investments are your income. If you lose large quantities of money in a bear market and you are living on that money at the same time, your money probably won't last until you're eighty. Now, maybe you look forward to the day when you can run out of money, move back in with the kids, spend time with your grandchildren, and change diapers at three o'clock in the morning, but on the off-chance you have different ideas for retirement, you need to protect your money. The buy-hold strategy doesn't safeguard your money. It puts your investments at risk.

What do you think the chances are that we will have a bear market between now and the rest of your life?

I believe it is practically a certainty there will be another one, and buy-hold guarantees that you will take a loss when it comes.