

Money Matters

The Independent Press
May 7, 2008

Question of the Month: Should I Sell Now?

By Aaron Skloff

Q: The stock market has been so volatile in the last six months, I was thinking about selling all of my stocks and mutual funds. What are the key considerations of such a change?

Somewhat like the weather, the stock market has been fluctuating from day to day and from hour to hour. Sometimes it just seems safer to simply keep your money in the bank, but this could be a big mistake.

Remember the story of the tortoise that finished first in a race against the hare? Investing in the stock market can be very advantageous for the slow and steady investor and very disadvantageous for the erratic investor. Look at the example of two investors, Madison and Torrey. At the end of 1987, Madison invested \$1,000 in the S&P 500 Index (an index that represents the U.S. stock market) and maintained her investment until the end of 2007. At that point, Madison's \$1,000 generated a compound return of 11.5% - leaving her with \$8,860. Although Torrey invested the same amount at the same time, she moved money in and out of the market as she became fearful during market volatility. By missing the best 25 days, Torrey's \$1,000 generated a compound return of 6.2% - leaving her with only \$3,304. That's right, simply remaining invested for the best 25 days left Madison more than twice as wealthy as Torrey.

If you can only remember one thing from this article, here it is: timing of the stock market over the long term is a fool's game!

A historical perspective: During the world's most devastating events the stock market, as measured by the S&P 500 Index, declined meaningfully. More importantly, it has always rebounded. For example, a \$1,000 investment in the S&P 500 Index during the Great Depression would have been worth \$2,000 10 years later and over \$2.5 million at the end of 2006. Astute investors see times of turmoil and market volatility as opportunities.

One of the biggest mistakes you can make is letting your emotions determine your investment decisions. It is just too easy to get caught up in the euphoria when everything is going up and everyone seems to be getting rich. But, buying at the top of the market when stocks are selling at premium valuations or selling after prices have already discounted weak results is a recipe for disaster.

Stay Invested. Timing the entries and exits of the stock market is a fool's game. Maintaining a long term investment horizon and slow and steady investment approach is a recipe for success. Stay invested and reap the rewards.

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