



Investment Insights

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Take the emotions out of investing

After three years of a down stock market, many investors are wondering why they should bother owning stocks at all. The exciting, profitable days of 1999 and early 2000 are a distant memory, account values are down substantially from those times, and the news seems to get more and more pessimistic each day. Whereas optimism and greed ruled the markets three years ago, today's environment is ruled by cynicism and fear.

As an advisor for the past 15 years to hundreds of local investors like you, I find emotions are one of the biggest obstacles individuals have to making money in their investments. Too often, emotions drive decisions to buy or sell, and frequently these types of emotion-driven decisions turn out to be the wrong move to make.

A study by DALBAR, Inc. confirms this fact: during the period 1984-2000, the S&P 500 Index returned on average 16.29% per year, yet individual investors averaged a return of only 5.32%. One of the biggest reasons individuals fared so poorly was the timing of buy and sell decisions. Individuals tended to add money to investments when the market was up, and liquidate investments when the market was down. As a comparison, institutions such as pension funds, which typically don't move in and out of markets but instead buy in disciplined, regular intervals, averaged a return of 16.29% on their stock portfolios, exactly the same as return on the S&P 500.

The past three years have provided a textbook example of the average individual investor's behavior. In March of 2000, when the markets hit their peak, money was pouring into stock mutual funds. According to AMG Data, stock funds saw a record \$100+ billion added by investors in the first quarter of 2000. When the markets were in the process of bottoming out in the third quarter of 2002, investors withdrew a record \$51.1 billion from equity funds. As these numbers illustrate, many investors bought the top, and sold the bottom, the exact opposite of the adage "Buy low and sell high".

The past three years have been painful even for the investor who is committed to riding out this downturn and holding onto their investments. As the market has done every time in the past, it will likely recover and reach new highs in the years ahead, and patient investors will be rewarded. However, the one benefit of a down market, the ability to make quality investments at lower prices, requires that investors do more than "sit tight".

This is a period where a disciplined investor with a thought-out game plan must continue to build out their portfolio by adding to their retirement accounts and investment accounts and making the smart investments that will help them achieve their financial goals. Reassess your goals, review your current holdings, and recommit to making the moves you need to make to realize your goals. Although there are plenty of reasons to feel mad, sad, or nervous about investing, as the evidence shows, these emotions may prevent you from doing well as an investor. Don't fall into the trap many individuals fall into by letting your emotions drive your decisions.

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