Time to Get Out of the Stock Market?

By Evelyn Preston

I began this article as the soaring American stock market bounced around on its long overdue adjustment. Investors knew—or should have known—that the market had become "overvalued."

Due to the artificially low interest rates of the recent past, experts believe it's better to have a "correction" than sink into a bear market. Some major "players" like computer traders, institutional investors, pension funds, etc. understood this new scenario; they began to sell and take their winnings. Others panicked and followed suit.

That's the way the market works, rising and falling due to facts, fears and other tangible and intangible ideas and events.

As in 1929, 1987, 2002 and 2008, after a too long run-up in stock prices, this recent sell off was inevitable; other factors besides rising interest rates also came into play for a mix of:

Good news—the current robust economy, also growing worldwide, hasn't changed but leads to, Bad news—fear of inflation and increased debt that spook investors.

Old news—"irrational exuberance" and rapid change which erases common sense.

TOO GOOD TO BE TRUE: even the "little guy" realized the market went up too high, too quickly, for too long. Unfortunately, many investors tend to forget the mantra of buy, hold, diversify. They also forget long term goals and swiftly sell at the top.

THIS TOO SHALL PASS: The stock market has proven the best bet for the highest overall returns through long eras of inflation, depression, war and scandal. These market jolts should trigger more than foolish fears of total loss. Instead, history proves that markets rebound.

RISK IS PERSONAL: No one should ever invest a penny before close examination of their innermost tolerance to the swings of financial fortune.

Don't want to ever lose a dime? Give up greater rewards with guaranteed returns via bank CDs, Government bonds and notes, insurance company annuities and cash.

Willing to take some risk? Along with guaranteed returns, add diversified mutual funds.

REVIEW and RECALCULATE

Compounding—interest earned on money plus interest is magic; reinvesting earnings to buy more shares at lower share prices leads to greater gains.

Time is money—the longer an investment is held, usually the lower the risk.

Market diversification—to even out losses and gains it's essential to invest in foreign/domestic, large/small cap, stock/bonds, growth/income funds/stocks/bond and also rebalance amounts in each group.

Time line—Seniors can keep dollars moving to different "buckets" depending on retirement needs and risk tolerance; conventional wisdom advises more bonds and fewer fluctuating stocks as we age.

Cash isn't always king—total anathema to risk requires total guarantees. However, all cash may lead to loss due to even minor inflation and taxes.

Market timing—cashing out may stem a downward slide but no one knows exactly when to reinvest.

No one likes to lose money. However, for most people the negative effects of a loss are always GREATER than the positive effects of a gain.

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