Tulsa World, 10-7-08

Investment survival in unpredictable times

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In good times, successful investing seems simple. Many investment strategies work, some better than others, but most make money nonetheless. In good times, investors have a natural human tendency to be less attentive to risk.

In this way, good times will sow the seeds for what will then follow: a reintroduction of market discipline and a painful reminder that risk did not really go away at all.

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During tough times, such as today's markets, we re-learn what is truly important to be successful investors.

There is no way to avoid risk or pain completely when investing. Investors who have all their money safely tucked away in a savings account are getting ravaged by inflation, averaging more than 5 percent for the past 12 months.

Hopefully, the following principles will help you avoid losing your head in this panic-filled market.

Have a written plan. A written plan keeps you on track. Just having a plan "in your head" isn't a good idea. It is easy to forget what you are supposed to be doing, especially during stressful times in the market. An investment plan can be very detailed, filled with dos and don'ts, but it must have a statement summarizing what you want to accomplish and why. Funding for retirement expenses? Growth for grandchildren's college education? Write it down.

Of course, a plan does not guarantee success. Adhering to it only guarantees you will stay focused. But it is a lack of focus that does many investors in.

Resist the urge to time the market. Making big changes regularly with your investments almost always guarantees poor results. Timing the market is both expensive and nearly impossible to get right for long.

Over almost any market cycle most of the upturns and downturns occur in just a few days. So for every 100 days in the market, you have to be exactly right on the five-to-ten days that make the most difference. No one is that good.

Diversify. Diversification is even less sexy than having a written plan and sticking to it because it makes you highly unlikely to be the next Warren Buffett (If you are not yet sure whether you are the next Buffett, rest assured, you are not). The first step in diversification is spreading your investments among different types of assets, including cash, bonds and stocks. This is commonly referred to asset allocation.

You love a certain stock so it makes up most of your wealth? The market neither cares nor is going to compensate you for taking that level of risk. Most individual stocks are much more volatile than the overall market. So, like market timing, the odds are simply against you if you are not properly diversified. Since the average investor feels more pain from a loss than pleasure from a gain, keeping losses under control also helps investors stay on track.

There is much more to diversification than not putting all of your eggs in one basket. Smart diversification means taking advantage of how different investments move over time in relation to one another. Smart diversification means that not all of your assets are headed in the same direction at the same time.

In summary: have a written plan; resist the urge to time the market; and keep your portfolio diversified. One additional word of advice: In an unpredictable market, don't panic.

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