I Did What an Investor Should Never Do

By John Gilliam

Financial writer John Gilliam shares how his investing blunders brought him back to the fundamentals.

AS a financial writer with access to the brightest minds in the investment business, I'm constantly asked "Where's the best place to invest my money?"

Family, friends, people I've just met — it doesn't matter — they all want a crystal-ball synopsis about where the market is headed, what's the next hot asset class or sector, and what great stock tips I know about that can make them money.

I do have plenty of informed opinions, but at the end of the day, they're just opinions. And in my personal investing experience they haven't always led to stellar results.

Why?

- Investing in the financial markets involves buying and selling, and to make a profit you have to get both decisions precisely right.
- To buy and sell successfully you must be able to monitor and interpret countless pieces of information that can change in a heartbeat.
- When the market has its ups and downs, emotions can easily cloud your judgment.

Classic Investing Mistakes

Even though I have written endlessly about the importance of investing fundamentals, I have ignored them. For example, in the years preceding the Great Bear Market of 2000 to 2002, I, like so many others investors, jumped on the dot-com bandwagon.

Starting in 1998, I bought stocks, mostly in TMT — technology, media and telecommunications. My brokerage account tripled in three years. The thinking on the Street was that the Internet boom changed everything, and if you turned on CNBC what you heard was, "It's different this time."

Well, it was different until it wasn't and in the bear market that followed my brokerage account fell by 60%. I sold everything in one day and remained in cash from the beginning of the bull market that started in 2003 until early 2006.

I did exactly what a disciplined investor should never do. Once I'd experienced huge losses, I waited to get back in the market until it felt safe to do so, thereby missing out on the lion's share of the gains.

In short, I completely ignored the basics. My decisions were based first on greed, then fear. And I couldn't accurately weigh the risks versus rewards.

The Importance of Asset Allocation

Investment research shows that 90% of a portfolio's return over time is attributed to having the right investment mix. That means having the right combination of asset classes — stocks, bonds and cash.

Why? Because it helps smooth out the ups and downs of the markets.

Investing for the Long Haul

Since experiencing these setbacks, in 2006 I chose an asset allocation solution tailored to fit my needs and risk tolerance. I've consolidated all my retirement assets into that product and my non-qualified taxable assets into a similar one that takes my tax burden into account.

I've learned that losses hurt more than gains help. For example, if you have $100,000 in assets and you lose 20%, you then have $80,000, which means you have to make 25% just to get back to $100,000.

There's plenty of opportunities in today's markets, but you have to maintain a disciplined approach when things get rocky. Staying diversified is the key to not only surviving but thriving in the financial markets. AF

John Gilliam is a freelance financial writer who has written on financial topics for many of America's leading financial institutions, including Citigroup, JPMorgan Chase, AIG and USAA.

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