

Ten New Investment Concepts, the Time Has Come

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Thereâ€™s a rumor going around that the Mutual Funds are broken and just canâ€™t work anymore, for a multitude of reasons. Here are some new and/or forgotten ideas that can get your investment program back on track:

Content:

1. Abandon the popular averages: Over the past six years, all of the major averages are grossly negative or just beginning to get back toward their best past levels. At the same time, the NYSE advance/decline line has been extremely positive. Additionally, the last time the averages were up, issue breadth was totally negative.

2. And the basics of investing, again, are what? Most investors confuse Quality with analyst expectations and think that Diversification means getting one of every product type thatâ€™s out there. In fact, they are basic risk minimization tools that every investor needs to use.
3. Appreciate the power of income: Base Income just has to grow every year, period, for a person to have any hope of keeping up with inflation. Thatâ€™s right, growing Market Value is inflationaryâ€¦ particularly with respect to hat size, and income paves the road to retirement income.
4. Buy low (within reason), sell higher: Profitable company stock prices fluctuate just like unprofitable ones. The difference is that the former are much more likely to move back up again. Buy quality at lower prices (just like any other form of shopping), big BUT, set a reasonable (10% or so) profit-taking targetâ€¦ and pull the trigger. Re-load, and do it again.
5. Embrace The Working Capital Model: For both portfolio Asset Allocation and Performance Evaluation, use the cost basis of your holdings as opposed to their Market Value. This is the only way to use short time periods (a year being the shortest for anything at all meaningful) for any kind of analysis. Also, as a bonus, youâ€™ll never make another fixed income mistake.
6. Fall in love with Volatility, not with securities of any kind: Market volatility is one of the few things (if there are any at all) that you can be certain about. Use it wisely and it will shorten your road to investment success. All too often, unrealized gains on the loved ones become realized losses on the tax return.
7. Remember Peak-to-Peak and Trough-to-Trough: There was a time when tests like these (and variations like P to T, or T to P) where the only valid (Market Value) tests of a managerâ€™s ability. They still are. I have never found a correlation between the calendar year and any market, interest rate, or economic cycle.
8. Corrections are every bit as lovable as rallies: In truth, profit taking is more fun, and much easier decision-making than buying stocks while in the throes of a falling Equity Market. But one is just the flip side of the other, and you need to learn the lyrics to Every Day just as you knew Peggy Sue.
9. Understand The Investorâ€™s Creed: How did trading get a bad rep? What is a stock exchange? Buy and hold just doesnâ€™t fit. The key is timing (not market timing) and selectivity. In a rising market you should be selling more than buying, resulting in a growing cash position. This is a good thing. In a falling market you should be buying more than selling, resulting in a smaller cash positionâ€¦ also a good thing. If you run out of cash while the market is still falling, you are doing it right. By the same token, if you feel stupid having taken your profits and the market is still foaming, your brilliance will not be your only reward.
10. Investing is not a competitive event: Itâ€™s all about you: your money, your risk tolerance, your goals, and your objectives. It doesnâ€™t matter what the others are doing, why and how. Think about this. There is no average, index, or benchmark that can be compared to the Market Value changes of a properly diversified portfolio. Nadda.
11. Establish Rules and Apply Disciplineâ€¦ a bonus idea. Just do it.

From: "The Brainwashing of the American Investor: The Book that Wall Street Does Not Want YOU to Read"

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