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Why Stock Market Investing Is A Disaster and What To Do About It ©

The benchmark index known as the S&P 500 hit a value of 1362.80 in April, 1999. But in mid 2008, this important measure of overall stock market performance was actually lower than it was in early 1999. Yes, there were a few good years in that nine year period, but the market always got wiped out right afterwards. For example, the S&P 500 hit a new high point in March, 2000 but then went on to lose 50% of its value by October, 2002. The Nasdaq lost 80% of its value during that period, and overall the stock market lost around $9 trillion dollars in this downturn. The market improved after this, but then from October, 2007 to July of 2008 the S&P 500 (and the Dow and Nasdaq) lost another 20%+, making investors worse off (for a second time!) than they were more than nine years earlier in 1999. To have earned a moderate annual stock market return of 10% by 2008, you would have needed to hold the right stocks or funds for 19 continuous years. Any shorter time or any less than perfect stock/fund picking would have left you with lower returns, likely much lower.

The big returns you hear about in the market are only theoretically achievable. For average investors in the real world, big returns almost never happen. Even with the best of advice, research and planning, timing is a huge issue which overrides all that expertise and planning. Over and over investors get in or out of the market at the wrong time, such as getting in shortly before a big market drop or getting out shortly before a big run up. Just one of these mistakes can ruin up to twenty years worth of gains. Or just as bad, poor timing gets investors caught in a decade or two of a market which just goes sideways.

You might consider nine or ten years to be "long term investing", and according to the experts if you stay invested in the stock market for a term of ten years or so you are virtually assured of at least moderate gains or returns (matching what is called a "benchmark"), of perhaps 10% to 12% annually. But a study reported in The Hulbert Financial Digest in April, 2008 illustrated that decade long stock market debacles happen fairly often. The study demonstrated that in order to reasonably assure yourself of stock market returns which will beat the low interest rate on T-Bills (about 3% per year over the last decade), you have to invest in a portfolio of some combination of stocks, mutual funds and bonds and keep that same portfolio for 20 to 30 years. Then maybe you will have beaten T-Bills. But even then you will only beat T-Bills if you were lucky enough to pick investments that turned in a good performance. Unfortunately, if you weren't lucky enough with your portfolio, after 20 or 30 years you don't have time left in your life to turn things around.

To retire with the lifestyle you would like, you probably need to withdraw about 6% or more of your remaining savings each year, after taxes. To keep that up throughout retirement you need to earn a rate of return of around 8% on your savings (to be able to pay the taxes and have 6% left). The problem with that plan: "The 8% average growth rate doesn't exist...You could have the bad luck to retire into 20 years of sideways stock market performance (or even ten years -- AE-Trust), as happened from 1964 to 1982 (or from 1999 to 2008 -- AE-Trust)...a person who retires at age 65 and begins withdrawing 6% a year from a nest egg of 40% stocks and 60% bonds has only about a 22% chance of having any money left at age 95." (Article: How To Bulletproof Your Nest Egg; Wall Street Journal weekend edition, June 14-15, 2008)

One of the bigger problems with stock and bond market investing is that the large institutional investors make it extremely difficult for the average investor or his/her advisor to make any money. There are thousands of these institutional investors, which include managers of: hedge, mutual and exchange traded funds, managed money funds, pension funds, large corporation funds, trust funds, etc. The edge and power which they hold over the markets and small investors is immense. They manipulate the markets in all sorts of ways. They have the most sophisticated computer systems and capable staff for both searching out the best deals and then managing the resulting investments minute by minute. They find the best investments long before you or your investment adviser does, and a lot of other institutional investors find these investments at about the same time. Their huge volume buying immediately drives the price of the stock or fund up so that you don't have a chance of getting in on the ground floor of this good deal. Then, as soon as the small investors begin coming in (you), they start selling the stock or they engage in short selling, both of which drive the price down faster than it went up. The average investor has very little chance to catch a big run up in a stock or fund, and has an extreme risk of being stuck with a stock or fund that quickly plummets due to the selling and shorting pressure of the institutional investors, or due to bad market conditions.

Another big problem is the poor quality of investment advisors and financial planners available to you. You might think that if you use a licensed, professional investment advisor or financial planner that he/she could put you in market investments which would beat the odds and problems stated above. But the unfortunate truth is, as with other professions, only about 10% of investment advisor/planners are good enough to beat just the average returns of the S&P 500 benchmark, or to even beat the 3% return on T-Bills. There are a variety of reasons for this, including: A great many investment advisor/planners have very poor or limited training, many simply don't have the talent or intellect, they are often more interested in pushing in-house investments and in the commissions paid to them on certain investments than they are in doing effective research for you (assuming they even had the training, intellect or talent to do the research). And they get beaten by the institutional investors mentioned above the same as you would.

So are T-Bills, money market funds and bank CDs the answer? No! Year after year the effect of inflation and taxes will more than eat up your return from these investments. If you stay in these investments long term, your total dollars will rise (slowly), but your purchasing power will be severely eroded. That is, you are effectively guaranteeing a loss in your nest egg by being in these types of investments. What you may have perceived as safe and steady returns and gains will quite likely turn out to be a worse bet than the stock market, maybe far worse.

The solution to these unfortunate facts is to seek out investments which fit in the middle between the ultra conservative, low yielding money market funds, bank CDs, etc. and riskier investments in the stock market. Two such investment ideas are listed on the www.IRACentral.com web site, using the link on the left side of the page: *Protect IRA From Market Disaster*. But don't hesitate to do your own research. Or for more information and advice seek out a highly regarded financial planner/adviser. This would be one who has a lot of his/her own money in the investments they recommend to you and who has a verifiable track record. However, finding such an advisor, and one that you can afford, is a tall order.

In summary: The high volatility, market losses, poorly timed moves, long periods where the stock markets make no headway and competition from the institutional investors all combine to make it very difficult to increase the purchasing power of your IRA or other nest egg any, or sufficiently to help with a comfortable retirement. But money market fund, bank CD and T-Bill yields will not offset the effects of taxes and inflation, so that these investments are guaranteed to lose purchasing power. There are middle ground alternative investments available which are likely better suited for you if you seek them out.