Investment Advice for the Financially Impaired

Every now and then I like to give unsolicited stock market tips to the financially-impaired, and there are a lot of you. It's also the same advice I give to the financially lazy, like myself.

I feel qualified to do so, because sometime late in the last century I graduated from the University of Iowa with a degree in Finance. Surprisingly little of substance in that field seems to have changed since then.

Despite my lofty UI education, my first attempts at investing were pretty much failures. Market index mutual funds were relatively new then (first seen in the early 70's) so with what little money I had available I toyed with individual stocks and conventional mutual funds. Those went nowhere, a sad state of affairs highlighted by my relentlessly checking their market values daily.

Next, I handed my modest portfolio to an investment advisor because I figured he couldn't do any worse, but I was wrong. It wasn't his fault because the market as a whole declined that year, but I remember thinking at the time that there could be no excuse for my retirement fund growing smaller.

Fast forward to the present, when practically all my vast wealth is invested in low-expense broad-market stock index funds. Unless you're smarter than I am (I'm not ruling this out), you should probably be doing the same with your own discretionary funds. I'm talking about money – usually in IRAs or 401Ks - you're sure you won't need for at least the next four or five years.

Investing in the stock market may seem like a difficult recommendation to make right now, considering many experts believe the current market has more downside than upside. Even so, google up "investing at the worst possible time" to see examples of what can occur when you consistently buy stock funds just before major recessions. In the long run, if you never sell no matter how bad it gets you still come out well ahead. Since 1950, there have been 36 stock market corrections (drops of at least 10%), and after each the market has ascended to new highs.

Investing in the stock market is not for the faint-hearted, partly because buying and selling decisions seem counter-intuitive. In any recession, it's gut-wrenching to see your investments decline month after month. A common reaction is, "I'm finally selling because I can't take it anymore," which locks in any loss to date and means you miss out on the inevitable recovery. You want to be buying when things look bad and never selling no matter what.

So here's my advice for you uncertain investors with at least a five-year investment window – put the vast majority of your retirement funds into a low-expense S&P 500 or Total Market index fund, add to it monthly and only glance at its value once per year. If it has decreased in value – even greatly – say to yourself "I don't care," because you don't.

You're nowhere near needing that money yet, and the market will likely go through several more cycles before you do. Besides, during market declines you can console yourself with the thought that the money you're investing monthly (you're doing this, right?) is buying much more when stock prices are lower.

As you approach retirement age (is anyone going the other way?) you might also look into target-date funds, which automatically shift to more conservative investments as you get older.

Last month one of my 401K financial advisors stopped by to review my 2018 portfolio performance (about a 6% loss), and he looked morose. I evidently had not been his first stop. When I shrugged and said, "Considering the market, it did exactly what I expected it to do," he smiled and said, "You'd be surprised how many people don't understand that."

I've only deviated from my own advice a couple of times and have regretted them both. Just before Trump's surprising election almost everyone was predicting a Hillary win and market correction, so I moved half my portfolio to bond index funds (better in a recession). Instead, that half of my portfolio missed out on the subsequent stock runup, which was substantial. I was trying to time the market, a grave mistake. You may be able to do it once or twice, but one miss can more than eliminate any gains.

My second deviation was putting part of my portfolio into an actively-managed index fund with a good track record but higher fees, which works great when it outperforms its benchmark index. Studies show that over 80% of actively-managed funds underperform their benchmarks, so it's hard to win here. I only came out a few points behind on this one, but it was still irritating.

Investing can be way more complicated than I make it seem, but it’s really hard to do much better than broad market index funds over the long run.

Writers Group member Dave Parsons freely admits that your mileage will almost certainly vary.