Investment Tips

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There is a date on this article because it is part of the guidance and observation that this article will discuss. The Dow Jones average now stands below 1200 down approximately 15 percent from last year's high. Investors are nervous to say the least. The vast majority of the calls that I receive are very negative with a fear that tells investors to get out before it goes much lower.

If there is one major fault in the public's market reaction this is it. Jokingly we say let's buy low and sell high. We all know that this is wishful thinking at an unrealistic level. Fear, without fundamental analysis of the investor's position, causes the exact opposite result than the investors really desire. In short, they sell low.

In a down market, we must examine our holdings in light of our objectives with a strong emphasis on the internal performance within the companies in which we are invested. Ratios and basic values come into play. At the 2007 high, the Dow Jones Average stood at approximately 17 times earnings. Now it is slightly under 14 times. How is this ratio in relation to your holdings? Assuming a conservative growth oriented portfolio with a 3 percent dividend return, you should do nothing if you are under 14 times earnings. The portfolio was not overpriced at 17. It has moved to the bargain area under 14. Don't panic as "it is always darkest before the dawn."

Down markets do point out a very important and conservative fact that over the years enables you to take advantage of some genuine bargains. Put simply, always keep some cash on the sidelines. Never be fully invested because that buying power from the cash will enable you to favorably add new holdings or average down on stocks that you already own. Generally a good percentage of cash is a high of 20 percent and a low of 5 percent. Think of it as the spare tire on your automobile.

Down markets are not selective. They punish companies that have little or no exposure to the problem areas just like they clobber the ones with real problems. Good examples here are the banks. Some are badly mired in the sub prime problem. Others have some minor difficulty. Many have nothing to worry about. All are currently down substantially from their highs. Get with your broker and find out the names of some of the badly beaten down issues that really don't have a problem. Many of these issues will have dividend yields of 6+%.

A very fine securities man emphasized to me in the early 60's that selecting undervalued stocks is relatively easy. In short, buying is not the problem. The hard part is selling because, if you have been successful, you are parting company with a "friend" who has been with you. Happily there is no need to sell if the company's internal performance has kept pace with the price performance. Selling only becomes a factor if the internal earnings growth has not kept pace. Of course, potential must also be considered. Your broker can work with you on such decisions. Basically, selling should be discouraged but not ignored if there is a good reason. The reverse is true on "losses." If the fundamentals remain strong, you "hang in there." If the optimistic forecasts have turned sour, then you must take the loss and move on. Don't stay with one in which you have lost confidence. Your reasons for pessimism will usually be correct if they are based on sound market analysis.

In the future I'll continue to give you observations like we have covered in this article. Remember, investing is not an exact science. I hope that thoughts from my long experience will help you in your investment decisions. Remember to "buy a share of patience" when you buy a share of stock.

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