

Time Might Actually be Money  
by Douglas Goldstein

Time is a precious commodity. I recently saw a formula that attempted to measure how valuable one's time was in concrete terms. By adding, dividing, and multiplying a complex series of numbers representing different factors and forces in a person's life, the equation determined what one's 'average hourly rate' should be. Then, by comparing this figure with other costs, the designers of the formula determined whether a particular activity was worth the time. The practical application of a formula such as this is to encourage a person to consider whether it's more cost efficient to iron one's own shirts or send them out and use that time for more productive endeavors.

The time-money formula also extends beyond one's personal time allotment decisions. It is an important factor in one's business determinations as well. If one can objectively measure the value of time, how can this information be used to advantage in an investment portfolio?

The oft-repeated "buy and hold" strategy posits that the longer you hold onto a given investment, the larger your profit margin is likely to be. Historically, the market has upheld this piece of conventional wisdom. Even if you include the weak performance over the past few years, during the past 10 years, the Dow Jones has posted annual returns in excess of 14% per year. That's no guarantee of future returns, but it suggests that for some people, stock investing can make sense.

When the market crashed in 1987 investors panicked. When the market dropped in 2000, many people were more tolerant, and in many areas there wasn't the frenzied selling of previous downturns. While panicking less is commendable, investors still need to learn how to sensibly hold onto their stocks.

**Hold on, but don't be left hanging**

If you purchase an investment with the intention of "buying and holding" how long should you keep it? What's a long time? One, three, or ten years? It's hard to be patient when you're losing (or making) money.

While historically investing in stocks has returned more profits than investing in bonds, a study done by Dalbar (a Boston based financial research company) shows that in certain periods bondholders enjoyed greater profits. For instance, during the bull market of January 1984 to December 2000 when stocks beat bonds by more than five percentage points, many bond investors did better than stock investors for the simple reason that they didn't sell – they held on for the long term. Just because your stock's value may drop, this might not be a sufficient reason to sell. Succumbing to the emotional desire to get rid of down-turned stocks isn't necessarily the best strategy. Sometimes, it is indeed prudent to sell at a loss, but just be sure there is solid reasoning behind your actualizing what would otherwise be merely paper losses. Depending on your situation, it might be wiser to sit tight and wait for your investment to recover.

Investors who try to time the market and miss may lose tremendous sums. People who don't have a clear investing strategy and hop from one top performer to the next, may also stand a very

real chance of losing their funds. Holding onto a certain investment may not be easy, but it may be the best way to retain profits.

### **How long should you hold onto an investment?**

The Dalbar study measured how long investors stayed in mutual funds by examining the cash flow in and out of the funds. At the end of 2000, it found that the average fund investors hold onto their fund for slightly less than three years. Then they sell out, and buy the current top performer.

If your goals and personal situation remain the same and the fundamentals of the company don't change either, then if the stock drops it is not necessarily a reason to banish it from your portfolio. A quality company is a quality company, regardless of whether its price is up or down. However, if your personal situation or the company's fundamentals do change, selling the stock might be a reasonable course of action.

### **When is the best time to get out?**

The problem with investors bailing out isn't so much that they look for a quick escape during a poor market climate, but the fact that many of them bail out on a short-term schedule. The "buy and hold" advice seems to have little sticking power.

Since it's almost impossible to time the market to your advantage on a consistent basis, the best you can do is to look for quality and then be in the game for the long-term. This way, you maximize the potential of benefiting from the upturns, and still have the chance of recovering from the losses.

Periodically review your portfolio and make adjustments if necessary. Before you sell solid stocks (either at a loss or for a profit), review your reasons for doing so; are there sound causes for removing them from the portfolio, or are you bored with them? Selling mutual funds every few years to replace them with a new category of funds may be reasonable if the markets— or your financial situation— have changed significantly. Selling funds and buying new ones just because you want to keep up with the latest trend may be a poor decision...one that can affect your pockets adversely.

### **Change the focus**

In order to minimize your risk exposure, you may want to choose a "buy and hold" strategy over market timing. And when you buy and hold— really hold. An educated investor's patience is not only a virtue, but can also be a great money making strategy.

Douglas Goldstein is the director of Profile Investment Services. He is a licensed financial professional both in the U.S. and Israel, and helps people who invest in the U.S. He is a member of the Financial Planning Association, and is securities licensed through Portfolio Resources Group, Inc. a registered broker dealer, Member NASD, SIPC, SIA. For more information, call (02) 624-2788 or (03) 524-0942.