Chapter 1

Buy and Hold: A Bad Strategy for Anyone over 50?

If you're over 50 and still investing the way you did when you were 35, you're in danger. You may be inadvertently putting yourself at risk of losing your hard-earned money, your desired lifestyle, and even your ability to retire.

You can't take the risks you did when you were younger. You're not in the game for growth anymore; you're in it to protect your principal. You need to protect it from taxes, from inflation, and from bear markets. When you get within five years of retirement, you need to shift your focus to protecting what you have built. It's easier said than done. All of a sudden you have to adopt a mindset that's 180 degrees from your former strategy. The buy-hold philosophy may have even helped you earn your wealth. It doesn't matter now. That strategy is no longer your friend, even if you're the best investor in the world.

Even the Best Investor . . .

Let's say you *are* the best investor in the history of the world. Over the past 30 years, you've made 20 percent every single year. You're a legend. They erected a 20-foot bronze statue of you on Wall Street. Every day, all the brokers and investors who pass by rub your foot for luck. You've amassed a huge estate—a phenomenal amount of money—and plan to retire in six months. Everything is great, except that it's now January 2008, and you believe in the buy-hold myth. What happens next? You lose half your money in that one year. Even if you end up with a lot of money after the crash, you now have a lifestyle half as nice as the one you were expecting. No matter how much money you have, if you've worked hard to ensure yourself a certain level of comfort, having to cut that dream in half is going to hurt.

"Many people like to start a new hobby when they retire. Hunting and gathering might be a good choice for you."

SOURCE: Randy Glasbergen.

You now also have the psychological pain of seeing your dreams and aspirations evaporate in front of your eyes. Should you retire after all? Maybe you should delay retirement? At this time in your life, you should not be experiencing this kind of anxiety, stress, or panic.

Buying into the Buy-Hold Myth

If buy-hold is such a dangerous strategy, why do people believe it? Because it seemed to work well for so long. Baby boomers, who account for 26 percent of the total U.S. population, were a large part of the workforce when they were younger. For many years, this 79-million-member generation was working in the labor market and building their retirement funds.

Did you notice what I said? People were *working* and *building* their retirement funds. When you were one of these working and investing people, you lived on the wages from your job while adding to your investment account. Your situation disguised what was really happening. For example, during one year you might have lost 20 percent of your investments, but since you were working, you also added to your account. At year-end, you didn't see a 20 percent loss reflected in your account; in fact, you may have had the same amount of money you had at the beginning of the year (see Figure 1.1). It would have been easy to think, "I didn't lose any money. Buy-hold worked."

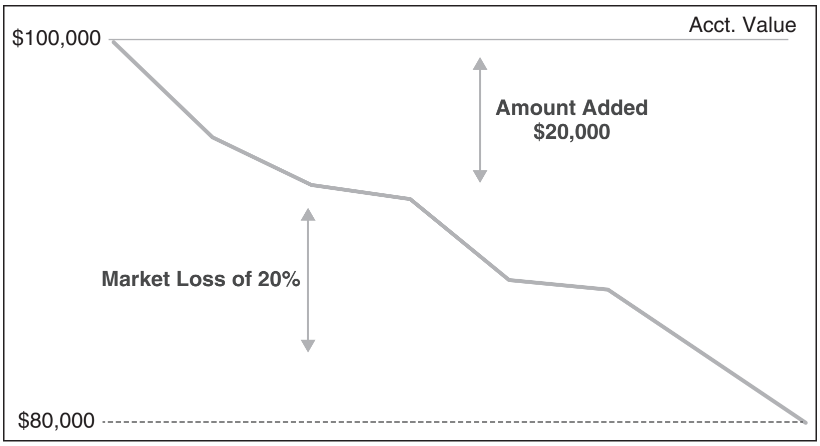

Figure 1.1 Added versus Lost

But you can see that it didn't. You broke even because you added to your investments. When you're still working, you're growing your money. You're putting money in your account. During bad times you're buying low. You're not as concerned about losses as you will be later in life. Being in the labor force muffles the actual experience of losing money.

The buy-hold strategy seems validated when you're working, but its problems are just disguised. When you retire, you'll see the real face of buy-hold. You'll be keenly aware of your losses. If you take out 5 percent for living expenses and then lose 20 percent of your investments in a bad market, you'll be down 25 percent at the end of the year. Your wages won't be there to cover your losses. You won't think you broke even. Worse than that, you'll have to change a few things in your life. You can't continue to live the way you did on just 75 percent of your former income. Look at it this way: Let's say you're still working, and one day your boss comes into your office. "Sorry," she says, "starting today we have to cut your pay 25 percent." What would you have to do? You'd have to rearrange your life dramatically to make up for your lost income.

> You can be young without money but you can't be old without it. —Tennessee Williams, playwright

When you retire, your investments are your income. If you lose large quantities of money in a bear market and you are living on that money at the same time, your money probably won't last until you're eighty. Now, maybe you look forward to the day when you can run out of money, move back in with the kids, spend time with your grandchildren, and change diapers at three o'clock in the morning, but on the off-chance you have different ideas for retirement, you need to protect your money. The buy-hold strategy doesn't safeguard your money. It puts your investments at risk.

What do you think the chances are that we will have a bear market between now and the rest of your life?

I believe it is practically a certainty there will be another one, and buy-hold guarantees that you will take a loss when it comes.