# Find a Methodology and Minimize Investment Madness

By Ulli G. Niemann

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There are many reasons to be investing these days, and too much opportunity to not have your money working for you.

However, I believe the majority of people dread having to deal with investment matters, and tend to jump into purchases and then hold their breath hoping for the best. After a long day at work and taking care of the family, it's hard to get excited about reading up on your 401(k) options, Morningstar ratings and fund performances.

If this sounds like you, there are basically 3 choices.

You can have your investments professionally managed, you can continue as you have in the past & keep your fingers crossed, or you can find a methodology that objectifies the investing process (that's buying and selling investments) and helps you maximize your long-term results.

To determine if you need help managing your investments(and this doesn't necessarily mean having to pay for advice) you might want to ask yourself these questions:

= Do I really have the time and interest to follow the market closely on a daily basis?

= Have I done well in the past managing my own investments?

= Do I really want to add another layer of work and responsibility onto an already busy schedule?

If you're like most people, you would answer yes to some and no to others, so how do you decide? If you think you could have or should have done better with your investments, then you need some help. Don't feel bad. Having counseled hundreds of people over the past 15 years I can honestly say that everybody needs some help, whether they are aware of it or not.

Why? This could come as a surprise, but, in fact, your financial life is a lot shorter than your physical life?

Most people who end up investing don't really start working and making money until they are about 25 years old. Considering the average retirement age of 65, this gives you only 40 years to save and invest wisely.

If you make a poor investment decision, such as trying to stay fully invested during a bear market, you could lose big both in terms of diminished dollars and wasted time.

To drive home this important point, let me give you an actual example involving my own portfolio. For ease of illustration I have adjusted the beginning portfolio balance to $10,000.

During the period from 1/25/91 to 10/13/00 my $10,000 investment grew to $37,840, which is a 14.67% compounded annual return.

On 10/13/00, based on a methodology I was following, I liquidated all of my domestic mutual fund positions and moved 100% to the safety of my money market account. Thanks to this move, my portfolio retained 100% of its value on that date.

As we now know with hindsight, most people held on to their investment positions and have so far lost on average 50% to 60% of the value of their portfolios. For this example let us use 50%.

If I had held onto my position, my portfolio would be down to $18,920. Last time I hit that level on the way up was in 1995.

In other words, not only would I have lost 50% of my portfolio I would have lost even more by having used up 20% (8 years) of my total financial life.

How can you avoid mistakes like that in the future? Spend a little of your valuable research time looking for investment methodologies that allow you to side-step bear markets and let you move back in during bull markets. In other words, invest your time looking at methodologies instead of investments themselves. This will lay the foundation for more effective use of your money and time.

If you find a methodology that you like, and it matches your investment philosophy, stick with it for the long term. It should have the aspect of telling you when to get out of, as well as when to get into, an investment.

I suggest you follow these broad guidelines:

• Don't be afraid to take a small loss to avoid bigger disasters.

• Stay away from commissioned sales people (because they have incentives other than your best interests), and if you use an advisor, be sure he or she is fee based.

• Above all, don't get overwhelmed by news, rumors and predictions that are irrelevant to your strategy.

If you take this advice, I guarantee that pretty soon sleepless nights will be a thing of the past and you'll be on your way to more confidently and successfully (that means profitably) managing your investments.



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Ulli Niemann is an investment advisor and has been writing about objective, methodical approaches to investing for over 10 years. He eluded the bear market of 2000 and has helped hundreds of people make better investment decisions. To find out more about his approach and his FREE Newsletter, please visit: http://www.successful-investment.com/ .
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