



Effective Financial Solutions

Thinking About Selling?

8 August 2011

In recent weeks the S&P/ASX 200 index bounced around all over the place then fell to the levels of mid 2009.

The U.S economy's a mess. Growth in the first half of the year slithered near zero percent. What looked like decent growth over the past two years was revised down to zilch. Jobs? Gone. Optimism? Gone.

Scary days, these. And with scary days comes the visceral response of wanting to do the ostrich — head in the sand.

Rather than dealing with market volatility, the temptation to sell everything and avoid it grows unbearable for some investors.

Some analysts are recommending investors abandon the market and sell all their stocks.

It's terrible advice.

Here are four reasons why selling now is the wrong thing to do.

1. The big moves happen during the darkest days.

In the U.S., since 1928, missing just the 20 best market days cuts total returns in half. Moreover, every one of those best days occurred during periods of market chaos — all within days of some of the market's worst sessions. This is when those who try to time the market often get destroyed.

Try avoiding the big drops, and you'll almost certainly miss the big gains. The result is usually mediocrity at best and more often an exercise in wealth destruction.

2. Those who trade the most do the worst.

This one's related to the last point. The Journal of Finance once published a study showing that those who trade the most earn the worst returns. Households whose portfolios had 20% monthly turnover underperformed market averages by nearly 6% a year.

That underperformance is simply devastating over time.

"Our main point is simple: Trading is hazardous to your wealth," the study concluded.

Check your confidence at the door if you think you can sell now and get back in when things get better without underperforming market averages. The number of those succeeding at this in the past is likely what you'd expect from random chance.

Cosgrove & Co Pty Ltd A.B.N. 38 077 099 499

5 Sixth Ave PALM BEACH QLD 4221

PO Box 1251 ELANORA QLD 4221

ph. (07) 5598 3800 fax. (07) 5598 3711 email. info@biscosgrove.com.au

Liability limited by a scheme approved under Professional Standards Legislation

3. You want to be invested when stocks are cheap. And many are.

If you're eager to sell stocks because you think they're overvalued, by all means, do. That's when you should. It's when you sell stocks just because you think they'll go down that's dangerous.

Many – maybe most – stocks are not overvalued today.

Companies like **Woolworths** (ASX: WOW), **Telstra** (ASX: TLS), **Westpac Banking Corporation** (ASX: WBC), **Australia and New Zealand Banking Group** (ASX: ANZ) **JB Hi-Fi** (ASX: JBH) and **The Reject Shop** (ASX: TRS) are all trading on undemanding multiples.

Could earnings fall as the U.S. and even the Australian economy stalls? Of course. Just don't forget ...

4. The future isn't predictable.

This is the most important reason it's foolhardy to sell in anticipation of trouble: You simply have no idea what the future holds.

Here's a test you can do. Using the internet, go back in history and read old newspapers.

See how many people really saw the future as it panned out without hindsight bias.

Go back to the beginning of 2007 and see how many analysts predicted the following share price falls...

| Company | % Price Change Jan 1 2007 to date |
|----------------------------|--|
| Macquarie Group (ASX: MCQ) | -65% |
| Qantas Airways (ASX: QAN) | -64% |
| Suncorp Group (ASX: SUN) | -63% |
| Oz Minerals (ASX: OZL) | -55% |
| Lend Lease (ASX: LLC) | -51% |
| QBE Insurance (ASX: QBE) | -43% |

Source: Capital IQ, a division of Standard & Poors

Go to March 2009 and look for those who thought markets were about to jump over 50%. Go back to 1991 and see how many economists predicted one of history's largest booms was around the corner. Very, very few.

Better yet, use the internet to immerse yourself in the abundance of past gloomy calls that never came true, or came and went without fanfare.

Think before you sell

If there is predictability to the future, it's that, broadly, economies adapt, capitalism works, and this too will pass — yet the masses will think otherwise.

Pessimism is one of the most prevalent attitudes in a world where progress has, over long periods of time, marched consistently higher. Think about that before you sell.