BEYOND BUY-AND-HOLD:

Successful Investing Tactics for Individuals Nearing or in Their Retirement Years

By Warren Wall
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Individual investors have received woefully bad advice from the financial pundits and mainstream financial institutions. The big boys don't want to waste their time on small portfolios and the mutual funds only care about keeping the money, so they've foisted buy-and-hold investing on the general public as the only way to be successful at investing. But buy-and-hold is one of the worst investment strategies there is if you are retired or nearing retirement.

Buy-and-hold investing leaves you entirely vulnerable to market drops — such as the last two years. Sure the market may bounce back, but statistics tell us it takes three to five years to recover from a bear market. If you need your money in the meanwhile, you're out of luck. Retired investors often don't have the time to wait until their account recovers. They need to make withdrawals now.

As an example, consider the experience of a recent retiree. After 28 years with a local power plant, the individual was given the unexpected opportunity to take an early retirement package in the fall of 1999 and accepted. With a $300,000 IRA rollover, he calculated that he needed just a 10% return for he and his wife to have a very comfortable retirement.

He invested his funds in the highly ranked and highly recommended Janus Fund. The Janus Fund prospectus stated that the Fund's primary objective was to "seek long-term growth of capital in a manner consistent with preservation of capital," exactly what the individual wanted his retirement funds to do — provide potential growth and protect his capital. The fund had averaged in excess of 20% annually over the previous 10 years and when it did have a down year, dropped little in value.

> "Buy-and-hold investing is a young person's game. If you are nearing retirement or retired you have to protect your assets from market downturns. On the other hand, retirees have to keep inflation from eating away their buying power."

By the end of 2000, his $300,000 Janus Fund account value had dropped to below $229,000.The next year, it was down to less than $150,000…a loss of over half of his funds. Would he have held on without the constant advice of the financial professionals to buy-and-hold? Absolutely not. He made the same mistake many of us make in thinking that the professionals are looking out for our good.

What if the individual had simply invested in individual stocks? Here again, timing makes all the difference. If you had owned Walt Disney in January of 1973, it would have taken 12 years to recover from the 1973-1974 bear market. Will Microsoft take as long to recover from its loss in value since 2000? We will have to wait and see.

Retired investors face a real dilemma. They need the stock market's earnings potential to keep ahead of taxes and inflation, but there is the very real downside of bear markets.

Our recommendation is heresy to mainstream financial advisors. "Time the market."

Timing the market is portrayed as this very dangerous strategy that individual investors are destined to fail at, but it can be as simple as a stop loss. Set a limit to how much you are willing to lose, 3%, 5%? When your mutual fund or stock drops that amount get out. It can't be an emotional decision. You can't read the headlines and then make your decision.

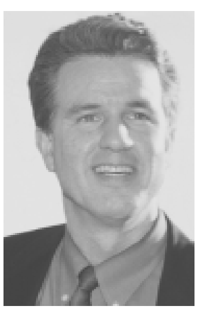
Emotions also have to be removed from the decision making process when it's time to get back into the market. You have to let the facts make the decision. Moving back into the market is a contrarian decision. You don't want to wait until every financial reporter is proclaiming a bull market because you will have already missed too much of the upswing.

Moving average strategies abound that investors can use or adapt to their own needs. Moving average lines smooth out a stock's daily fluctuations and show the stock's general price trend. Some traders see a stock's 50-day moving average passing its 200-day moving average as a buy signal.

If you don't have the time to methodically follow your accounts or the temperament to invest successfully, the number of investment advisers using active management strategies is definitely on the rise. Look for a proven track record and a strategy that makes sense to you.

Personally, I have never liked black box strategies where the manager plugs in the numbers, but never really understands how the answer is produced. For me, the investment strategy has to be intuitive. It has to make sense. When we developed our current strategy it was like a light going on where I could say, "Yes. This makes sense, I see why it works."

My introduction to market timing came back to the 1987 Bear Market. I was swamped with the calls from my retired investors bewildered at their losses and wondering why the brokerage firm had not protected their assets from the downturn. I knew there had to be a better way to invest that would reduce the risk of losing money and potentially increase overall investment returns. The best way to make money is not to lose money. That forms the basis of our investing approaches at Wall & Company.



Warren Wall is founder and chief investment strategist at Wall & Company, an SEC registered investment advisor based in Asheville, North Carolina. The firm manages in excess of $50 million in client assets using market timing and sector rotation strategies. The firm was ranked number one in MoniResearch Newsletter's 2001 performance rankings of Dynamic Asset Allocators. MoniResearch specializes in monitoring the performance of market timing and other active management strategies and currently monitors more than 150 Dynamic Asset Allocation programs offered by more than 100 investment managers nationwide.

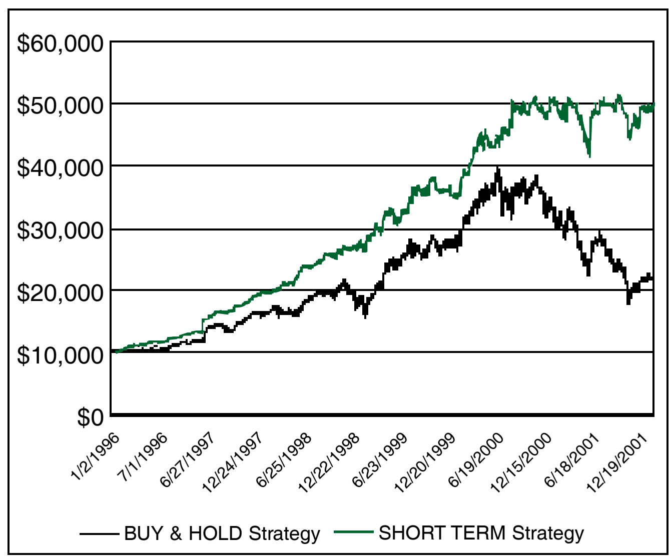
Simple Timing Systems Can Be Surprisingly Effective

What if an investor approached the financial market on a day-by-day basis, moving into a mutual fund when the fund closed up the prior day and out when the fund closes down the prior day? The chart below illustrates the result of applying this strategy to the Janus Fund.

The hypothetical strategy actually lagged Janus results for the first three months of 1996, picking up speed when the Janus Fund faltered in March 1996. By the end of 2001, a buy-and-hold position would have had a value of $22,005, while the simple timing strategy would have resulted in a value of $49,153. The caveat, says Warren Wall, is that this is not really a tradeable system because the investor would be moving on an average of 1.5 times a week or six times a month, in excess of the trading restrictions of many mutual funds. The chart does, however, illustrate the power of a relatively simple, non-emotional market timing approach.

Janus Fund Growth of $10,000[1]

Buy-and-Hold Versus Hypothetical Timing Approach
1/2/96 through 1/31/01



[1] For illustrative purposes only. No money was invested following this strategy nor has the impact of management fees been considered. Mutual funds may charge an early redemption fee if a fund is held less than a set time period. This would reduce the performance of the above illustration. Because markets are influenced by a variety of changing conditions, future performance based on prior results should not necessarily be assumed. It should be noted that the possibility of loss exists along with the potential for profit. Before investing in any mutual fund, call or write for a prospectus for more complete information including management fees and risks.

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