CORNERSTONE
INVESTMENT SERVICES, LLC

Cornerstone Commentary

June 2009

Key Points

- Cash is NOT trash
- Investing is not simple or easy
- A successful strategy will have room for some losses
- Investors have a variety of choices of investments, even in a bear market

As Seen in

Forbes

Cornerstone Investment Services has been chosen by Goldline Research as one of the **Ten Most Dependable Wealth Managers of the NorthEast**

Investment Myths

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The past 10 years has seen the markets go to extreme overvaluations, have terrible collapses and enough manipulation and corruption to last a lifetime. It is no wonder investors feel dazed and confused.

Over those years, we have seen investors ignore some of the most fundamental rules while grasping tightly to Wall Street maxims, hot fads and unproven theories and strategies.

Investment Myths is part one of a two part series we are presenting to give investors a clearer picture of the investing world, some of the pitfalls and some of the "rules." They are in no particular order.

Cash is Trash – If there is anything 2008 should have taught investors is that having a store of cash is important. It cushions the downside of a portfolio and gives an investor ready liquidity with which they can buy, while others are panic selling.

Having ready cash gives the investor a variety of options. They can pick up investments that have dropped to bargain basement prices, they can hedge a declining portfolio or sector. They can access cash for income needs while income investments recover. Cash is not trash, just this Myth is.

I buy companies, not stocks – We've seen this touted by those that, in our opinion, don't understand either. When you invest in stocks, you are buying a share of a company. But, stocks don't react to changes in the company in a direct 1:1 ratio. Also companies don't react to stock action in a 1:1 ratio. Sometimes stocks are very overvalued. Does that mean it is a bad company? No. But the stock is overpriced. Sometimes, very good companies can have very overpriced stocks. The recent market collapse should make it clear how important it is to understand the difference between stocks and companies.

Investing in stocks is just like gambling – No, not if you do your homework and have the proper expectations. Investors that are looking for a quick hit with investments they don't understand are gambling. But investors that understand long term trends and how their investments fit within those trends are not gambling. They are investing.

KISS – Keep It Simple Stupid – This myth tells investors that anyone can do it. It is easy, simple even. The fact of the matter is that investing is much more complicated than some mutual fund literature would have you believe. Today, investors have to know how short term interest rates can be impacted by the Dollar, how earnings can be hurt by geo-political events, how to hedge a portfolio and why long term rates can go up when the Fed lowers short term rates. It is a complicated myriad of interconnected markets and economies all tangled up. Few individual investors have the time, education and experience to understand the current investment environment or to know how to best deploy an appropriate investment strategy.

You only need to buy index funds. – If you want index type returns, that is fine. Not many people would volunteer for the collapse of the S&P 500 index in 2008 or its approximately 35% decline from 2000 through the end of 2008. Investors need to have actively managed portfolios to take advantage of the shifting economic trends and macro global trends. An index fund only focuses on one part of an well diversified portfolio. And sometimes it is best not to be in the market at all. An index fund is about 100% invested at all times.

Short Selling Stocks Is Anti-American – Short selling keeps stocks and markets in balance. Wall Street is still heavily weighted towards buy recommendations. Short sellers give a different perspective. They can show which investments are not what they appear to be. Short selling can also give an investor a way to profit from a declining market.

Stocks always go up in the long term – Yes, in the very long term. The market took 25 years to break even after the 1929 peak. It took 16 years to break-even with the 1966 peak. The Japanese market peaked in 1989 and is still down about 70% after 20 years. After 10 years, the US stock market is still about 35% off its high. Yes, they always go up in the long run, but few people are willing to wait that long.

Every Trade should be a winner – Anyone that expects every trade or investment to be a money maker is living in a dreamworld. In any strategy, there are going to be winners and losers. It is the wise investor that recognizes that losers are just a part of investing. It is controlling the losses that a good strategy should have as a priority.

There is nothing you can do about a Bear market, except ride it out. – This is a fallacy that ends up hurting millions of investors. Yes, there are plenty of things investors can do about bear markets. The first thing is to reduce exposure to the markets. The next is to hedge the markets and investment positions. Another is having ready cash to trade the rallies that occur.

Nobody can predict a bear market – While it is true that nobody can accurately predict exactly when a bear will start, it is possible to study markets and determine when markets have become overvalued and vulnerable to a pullback. Adjusting assets accordingly can minimize the impact of a bear market.

Investors only have a choice of just stocks and/or bonds – Far from it. Investors today have the widest variety of investment choices available to them ever. There are foreign stocks and bonds, commodities, precious metals, managed futures, currencies, and investors can invest in the downside of just about any

Key Points

- Bonds don't always reduce portfolio risk
- You should not always be fully invested
- The markets don't know how old you are
- The markets don't always come back right away

market. So investors don't have to just focus on stocks and bonds.

Adding bonds to a portfolio of stocks reduces the portfolio's risk – Many times it does. But many times it doesn't. Stocks and bonds don't have a fixed, preset amount of risk and potential returns. The market cycles determines the risk and potential returns and sometimes, both stocks and bonds are in a down cycle. So putting bonds in a portfolio when this is the situation won't help.

Your Age Determines your Asset Allocation - No, market cycles determine your asset allocation. The market has no idea how old you are. There is someone retiring everyday and someone else just entering the workforce every day. Does that mean the markets are just right everyday? Should a young person put their money into the top of an equity cycle just because they are young? Should a retired person put their money in bonds just because they are older?

Of course not. Stocks and Bonds go through long term cycles. And at any point in time, bonds and stocks may be approaching the top of their respective cycles or heading towards the bottom. A person's age has little to nothing to do with their asset allocation. Whether a person is conservative or aggressive does impact their asset allocation, but that doesn't translate into stocks and bonds directly.

The market always comes back – Similar to "Stocks always go up in the long term", this myth has a more short term intent. Many times, when this myth is invoked, the implication is that whatever recent decline the market has experienced will likely recover soon, within weeks or months. This isn't true. Yes, many times declines do come back. But many times, declines are the start of a bear market and the recovery isn't an indication of strength, but an opportunity to exit the market before the next even bigger decline.

The trend is your friend – It depends on your perspective. Long term, primary trends can be very obvious. Shorter term trends might not be so predictable and many investors mistake countertrends for the primary trend, to their chagrin.

You can't time the market – The implication here is that proper timing of markets is knowing exactly when the top and bottom is. This is not the case. Good market timing involves recognizing when markets have gone to extremes either high or low and acting on it. It does not mean you get out at the top or bottom.

You should always stay fully invested – This is a myth spread by those that want to sell investors more investments. The fact is that there are plenty of times it is in an investors' best interests not to be fully invested. Unfortunately, many investors believe this myth and impatiently want to keep every penny invested at all times. Again, 2008 should have taught investors that being fully invested at all times is not a wise idea.

You don't need professional advice – Professional advice gives an investor something they can't get on their own, experience and expertise. Professional advisors can also act with less emotion than many investors so they are less likely to panic or get hooked by a hot investment.

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