Title:
Big Lie #1: Buy and Hold

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Summary:
Buy and Hold isn't the best investment philosophy.

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Article Body:

So much of what you hear in the financial press these days is so wrong, that one must consider most financial television and print to be strictly for entertainment purposes only. In this article, we're going to examine one of the big lies constantly being pedaled, the myth of Buy and Hold.

"Buy a stock or mutual fund and hold it through thick and thin for 30 years and you will make money," they say. "On an annual basis, the market goes up a little less than 2/3 of the time. Over 5 years, it goes up ¾ of the time. Over 30 years, you are virtually guaranteed a positive return."

They spout these statistics because the financial industry is wholly dependent on buy and hold. With a buy and strategy, your broker doesn't need to know how to manage money or guard your portfolio. All he has to do is sell you more products and collect his commission, or more recently, a hefty percentage of your portfolio as a "management fee."

In a perfect world of ever rising stock prices, buy and hold would be a viable plan, but the real world tells a different story, a sad story of the consequences of blindly following a buy and hold strategy.

Here are the tragic facts:

* $100,000 invested in the S&P 500 in January, 2000, was worth $84,901.72 in January, 2006.

* $100,000 invested in the NASDAQ 100 in January, 2000, declined to $44,370.97

by January, 2006.

* The average recession in the United States decreases major U.S. equity indexes 43%.

* The NASDAQ decline from March, 2000 to October, 2002, will require a 461% gain just to get to break even.

* Of 16 major national stock markets, investors from only five would have been guaranteed positive annual returns over every 20 year period during the past century.

At best, buy and hold investors have been treading water for the last six years, and by treading water, they've actually been going backwards since the Consumer Price Index has been going up an average of 2.5% per year. But to many investors, treading water would have looked like a really good deal.

They were the people who watched their nest eggs implode by as much as 80% between 2000 and 2002 while their brokers and mutual fund managers did nothing to save them. Retirements were destroyed; millions had to return to work, dreams were put on hold. Families suffered and still suffer today in real and tangible ways.

And today many say that The Millennium Bear Market of 2000 can't happen again. But it has happened before and will happen again! Between 1972 and 1974, the NASDAQ dropped 60% and stayed down until April, 1980. Eight years of negative returns.

Not to mention the Dow crash of 1987 or the fourteen year bear market in the Nikkei Index.
Even without a headline making drop, U.S. stock returns over the last five years have been negative when factored for inflation.

The only sane solution for an investor today is to educate himself and find a better way to protect and grow his wealth. There are a number of proven options available, but the absolute worst thing one can do is listen to the pundits who tell you to "buy and hold."