

## So, You Made Money in the Market?

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How much did you make in the market? Fifty thousand dollars!

Did you sell? No.

Then you didn't really make anything, did you?

Most people only dream about the fabulous rates of return they may be earning on their investments. That's because they don't sell those investments, so those returns stay on paper and never get into their pockets. And, as many investors learned this summer, paper returns are much less reliable than cash in the pocket.

The only way to make money in the market is to sell an investment for a profit. By the same token, you can't lose money in the market until you sell. The value of your investments goes up and down while you hold them, but that doesn't affect the amount of money in your wallet or checking account. It's the sale of an investment that truly marks a gain or loss in your assets.

It's relatively easy to pick a good investment. Not necessarily a stellar investment that's going to top the charts for years to come, but one with fairly reliable growth that outpaces inflation by a percentage point or two.

What isn't easy for most people is to make the call on when to sell. To decide, okay, I've made enough returns on this investment – it's time to make them real. Or, to decide that an investment has gone south, permanently, and to cut the losses now. That's because many people become emotionally attached to their investments. Maybe it's the stock of a former employer. Maybe it's an investment decision made by a deceased spouse. Maybe it's a matter of not admitting an error in judgement. Another complicating factor is lack of confidence – investors can be so afraid of making a mistake that they become paralyzed with indecision.

But perhaps the most important cause of this indecision is that most investors don't really know what their investment goals are. It's rare to find an investor who can tell you that he hopes to earn an average annual return of 12% and invest 10% of his salary for the next 17 years so that he can retire with a nest egg of \$1,000,000.

To combat these personal handicaps in investing, you should develop an investment plan as early as possible in your investment process. The investment plan becomes your guidance for deciding whether and when to sell an investment, helping overcome emotional ties and insecurity. Your plan should answer these four questions in advance:

- 1) For what reason are you investing? College education, vacation home, retirement? This tells you your investment time frame – when you will need to sell that investment to convert it back into pocket money.
- 2) How much and how quickly does the investment need to grow to meet your need? This will help you evaluate if your investment is still appropriate for you.
- 3) How often will you review your investment to make sure it is still on track to meet your needs? Remember, you don't have to beat the Dow, just meet your own goals.
- 4) How much money are you willing to lose? This tells you the price at which you would sell the investment if it lost value to that point, to prevent additional loss.

If you do not have the time, temperament or confidence to develop your own investment plan, a full-service investment advisor can manage the entire investment process for you.