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Wenning Investments, LLC

# Wenning Advice

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## You Need Wealth To "Preserve Wealth"

The "buy-and-hold" model of investing encourages investors to invest most of their money in stocks and to gradually shift to bonds as they approach retirement.

Since stocks historically have achieved a higher rate of return than bonds, the idea is to create wealth while you're working and to preserve wealth by investing conservatively when you retire.



For this approach to work, though, you have to have wealth to preserve. Unfortunately, many people today who are either retired or approaching retirement have suffered through two very tough bear markets since the current decade began and may not have enough wealth to coast through their retirement years.

In addition, people are living longer and retiring earlier. The average length of retirement has increased from 8.2 years in 1950 to nearly 20 years today. Assuming that we will continue to live longer and will retire at somewhere between age 62 and 65, many people working today will be retired for 30 years.

So if you follow the common advice and gradually shift your investments from stocks to bonds as you approach retirement, will you have enough money to get you through your retirement years?

Probably not. First, keep in mind that bonds carry risk. If interest rates rise, bond prices fall. Currently, interest rates are at historic lows and at some point they will rise. So if you invest in bonds today, they likely will be worth less in the future.

Second, bonds may not generate enough income to fund your retirement long term. For now, if you own enough bonds, the income they generate may fund your retirement. But will that income be sufficient 20 years from now? Not if high inflation returns. And with the government spending trillions of dollars to get us out of the subprime crisis, high inflation in the future is likely.

Even putting aside inflation, your expenses may be higher 20 years from now. For example, what if you need long-term care? In Massachusetts, the average cost of a semi-private room in a nursing home now exceeds \$100,000 a year - and it's likely to go much higher as retiring baby boomers age and add to the demand.

### **A Better Way To Manage Risk**

If you've invested in stocks your whole life to become wealthy, why should you shift most of your investments to bonds during retirement?

Because if you follow a "buy-and-hold" strategy and are heavily invested in stocks, a bear market could cause irreparable damage to your portfolio. When you're young and a bear market cuts the value of your portfolio by 20 percent or even 50 percent, you'll have plenty of time to recover. Long-term, you should still end up with a respectable net gain, based on the historical performance of the stock market (although past performance is not necessarily indicative of future performance).

If you're retired and your portfolio loses half of its value, you may have to make a radical adjustment to your lifestyle and live off of far less money to keep from running out.

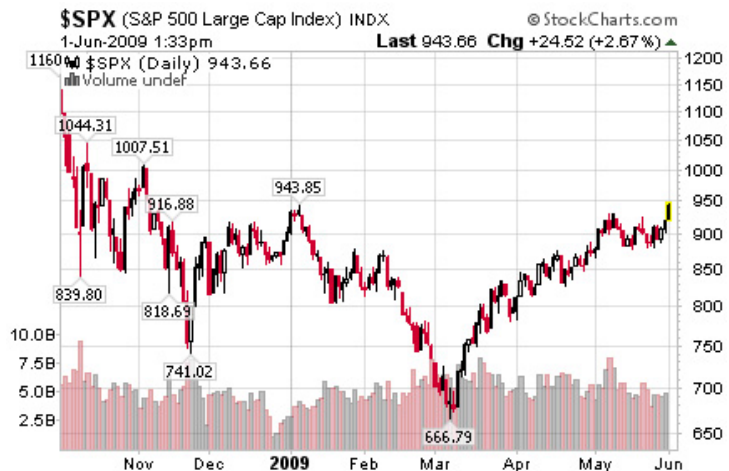
Although the stock market has been recovering, we are still in our 15th bear market since the Great Depression. That averages out to a bear market practically every five years. Historically, it takes an average of 3.6 years to recover from a bear market.

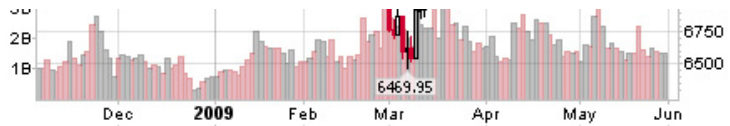
So what's the alternative? Invest defensively. If you sold out of the market last summer or last fall, you could have prevented heavy losses. There were plenty of signs that a bear market was coming and many active investment managers took their clients out of the market.

It's also important to know when to accept a loss. There's no foolproof method to investing, but using stop losses can help you limit your losses and manage risk. Stop losses can be used to sell specific stocks automatically when prices drop to a designated level. They help to manage risk.

With the right investment strategy - one that makes adjustments for changing market conditions - you may be able to continue making money even in a bear market.

### Been down so long, it looks like up to me





Recently, financial media have focused on the surging stock market, which overall is up about 30% since March. But recent gains should be put in perspective. The S&P 500 reached a low of 666.79 in March and was recently at 930.17. That's still a far cry from the level of 1440 it was at last May. The Dow Jones Industrial Average, likewise, has leapt from the 6500 range to around 8500 over the same period, but a year ago it was at 13,000.

So have investors gained 30%? Or are they down 45%? Although the recent gains are good news for everyone, those who stayed invested the whole time are still down significantly over the past year. Those who followed an active investment approach, selling off last year and reinvesting recently, have benefited significantly.

## Q&A

### What are alternative investments?

Any investment other than stocks, bonds, cash equivalents and mutual funds is considered an alternative investment.

You probably own some alternative investments and don't even realize it. Alternatives include a broad range of investments, including exchange-traded funds (ETFs), options, futures, real estate, gold, convertible securities, real estate investment trusts (REITs) and collectibles, such as art, antiques, wine and rare coins.

Many financial advisors and investment managers lump all alternative investments together and define them as being too risky for their clients. In truth, though, many alternative investments can be used to reduce risk. Alternative investments can also increase diversity within a portfolio.

If your investment advisor is excluding alternative investments from your portfolio, maybe you should consider a new alternative to your current advisor.

## Learning From Your Investing Mistakes

Knowing when to sell stocks and other securities is as important as knowing when to buy them.

In our last issue, we talked about buying high, which is a common mistake. But selling low may even be a more common mistake. Many investors grew nervous as the market began to fall last year. In many cases, they resisted selling their stock, then finally sold in March, when the market was at a low point.

Recently, the market has rallied. Those who stuck with it have gained back some of what they lost. The market is up more than 30% since March, but for the year, it is just past the breakeven point.

Investors who sold just before the bear market or soon after it began lost little. Those who waited and sold low lost a great deal.

Keep in mind that when you sell, you have no chance of recovering the money you lost.

**Mistake #6: Selling Low.** Investors know, but often fail to practice, the adage "buy low, sell high." They often do the opposite.

One reason is that it is difficult to accept losses. Accepting a loss means accepting that you were wrong about an investment. When an

