How (NOT) to Buy Mutual Funds

By Ulli G. Niemann

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When it comes to mutual funds, there is a lot more to success than just finding a good one. Sad investment stories like the following are all too common. I hope my sharing it with you will help you avoid making the same devastating financial mistake one of my former clients made.

This story begins during the height of the investment madness in 2000, just prior to the bear market. I had been managing an IRA account for "Bob" for around six years, with a better than average record of success. So I was surprised when Bob sheepishly called in July, 2000 to let me know he was transferring his IRA account, which had done particularly well during our latest Buy cycle going into the year 2000.

However, his tax preparer, a long time personal friend of Bob's wife's, was now also offering investment services, having recently received his Registered Representative's license.

Fast forward to the end of September. It had become increasingly clear to me that the Bull market had run its course. So, in accordance with the Sell signal from our trend tracking methodology, we sold all of our mutual fund positions on October 13, 2000 and went 100% into money market. (See my article "How we eluded the Bear in 2000" at http://www.successful-investment.com/articles12.htm). From our safe haven we watched the market crash and burn, causing most other investors to sustain double digit losses eventually reaching as high as 50 - 60% of their assets.

In 2002 Bob unexpectedly stopped by my office. As it turned out, things had not gone well at all with his IRA investments. As most advisors would have done, his tax preparer/advisor had quickly moved all of Bob's assets into a variety of "load funds."

Of course, being newly licensed he was clueless (as were many licensed advisors) as to market behavior or analysis of any kind. The end result was that Bob's portfolio lost in excess of 50% over the next 2 years. (Not to gloat, but my clients' losses in the same period were non-existent.)

Unfortunately, the degree of loss Bob sustained was experienced by many investors who did not follow a disciplined and methodical approach.

What I find particularly distasteful is that Bob's tax preparer misused his position of trust. He made financial decisions that he was not qualified to make, though his license implied that he did know enough to make them. So now we know what a piece of paper is worth.

This is no different than letting a newly graduated medical student with a fresh MD behind his name perform heart surgery. Or, hiring a new MBA grad to Chief Financial Officer of a Fortune 500 company. Yet the financial services industry allows someone to get a license (after a fairly short course) and to immediately start making incredibly important and far reaching financial decisions for anyone he or she can sell their service to.

This is a worrisome trend in this industry. A CPA friend confirmed that he has been approached many times by firms wanting him to offer investment services.

Why? It's easy money! Accountants and tax professionals have a great business base. They are in a unique position of trust, because of the information their clients disclose to them. Whether they are employed by a company or they maintain an individual practice, there is probably no other person (other than your spouse) who knows as many intimate details of your financial life as your accountant/tax preparer.

To abuse this trust for personal gain—no matter how noble the motive may appear—is a total conflict of interest and a huge betrayal.

The bear market of 2000 has shown that investing must be a disciplined endeavor. Even most professionals have failed to recognize this. What busy accountant, in the middle of tax season, can put the necessary time and attention to a volatile investment market that may require action at a moment's notice?

As for Bob, he's still with his accountant, and in the same investments that brought his portfolio down. He's hoping for a miracle recovery. As of this writing, the stock market is engaged in something of an upswing and Bob, I'm sure, is getting his hopes up that he will recover some of his losses. However, I shudder to think that this rally may come to an end and the bear market resumes. Where will Bob be then?

At 58 years old Bob is still playing Russian roulette with his retirement. He's apparently unable to make a decision to move to someone who has the ability to make sense of market trends and the discipline to follow the signals they communicate. This is a decision that will have a profound affect on his financial future—and will determine whether his story has a happy or sad ending.

Ulli Niemann is an investment advisor and has been writing about objective, methodical approaches to investing for over 10 years. He eluded the bear market of 2000 and has helped countless of people make better investment decisions. To find out more about his approach and his FREE Newsletter, please visit: www.successful-investment.com.
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The Right Mutual Funds For Baby Boomers   by C.C. Collins

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If you are a baby boomer, time is not on your side. Many baby boomers see retirement age fast approaching with little to nothing in the way of retirement assets that will allow them to actually retire and live a comfortable lifestyle.

With the benefit of time in short supply, substantial investment performance in a shorter than normal time frame becomes strikingly important.

Mutual Fund Advice A case could be made that a special type of mututal fund, an index mutual fund, in conjunction with careful market trend analysis (not predictive market timing) could be used to achieve higher returns faster than a standard mutual fund.

As to the specific type of index fund to consider using, investors would do well to "keep it simple" and use an index fund that tracks well known indexes like the S&P 500, Nasdaq100, and Wilshire 2000.

Index funds that track any of the major indexes are just taking advantage of the concept of diversification. The only remaining risk is whether the entire market goes up or goes down and one can switch to a fund that is designed to profit from a down market when such action is called for.

There are very few active investment managers that outperform index funds or exchange traded funds over a five year or greater period. This is why an index fund is recommended in the case of baby boomer-aged investors who need stellar performance over shorter time frames.

Mutual Fund Selection

Mutual Fund Action plan

Mutual Fund Research

Mutual Fund Investment tools

C.C. Collins is a Financial Planning Advisor and Author of “Scientific Wealth Strategies” at http://wealthscientist.com. Find more information at http://networthpublishing.com