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FINANCE

Don't let market dips sour you on investing

THOMAS BERTHEL

Once again we have moved America forward in its quest to continue to be the greatest financial power in the world. Just two short years ago we were coming off one of the longest downturns in the history of the American stock market. This downturn lasted longer than any other since the depression. At that time, investors wondered if their accounts would ever recover and if their retirement investments would be gone forever. Morale was low and high tech was out. Fixed income was the only place to be and the financial services markets were downsizing for the expected lack of investments in the future.

Just after the markets began to tumble, we were hit with many on-going events that pushed us further and further into trouble. First and foremost were the terrorist attacks on 9/11. Enron became a symbol for all that was bad in corporate board rooms and then the financial services and mutual fund industries introduced us to new ways to unravel investor confidence. Markets for that three-year period went from the closing peak in 2000 of 10,971 to the closing low in 2003 of 7,891. Then along came the recovery. Since the closing low in 2003, the stock market closed on Dec. 31, 2004, at 10,783.

Because I am an optimist, I would like to think that throughout the period of declining markets, investors surely must have seen the recovery approaching and continued investing. The fundamental rules of dollar cost averaging must have been followed by most and hopefully investors wouldn't have given up and gotten out of the equity markets just as the recovery was about to begin. Unfortunately, we see study after study where investors get out of equities at a range of 10 percent of the low in a market cycle and invest near or at the peak of a market cycle. Some of this is fueled by what we read and hear from the media. You see many reports on the markets when they hit peaks and you wonder why you are not winning like everyone else. When the markets are terrible you wonder why you have stayed in as long as you did and then you finally give up and make the liquidation call. When the recovery begins you convince yourself to wait until the market corrects before you want to reinvest only finding now you have waited for two years.

Guess what? You don't need to feel bad. You're not alone. So, what can you do about it? First of all, admit that you and the investment professionals will never be right all of the time. Like my grandfather used to say about buying and selling livestock on the farm, "I have some ready every quarter and I buy every quarter so I can always be in the market, especially when it is good." So if it is good more than 50 percent of the time you win. In the stock market it is even better than that because you get the benefit of compounded interest and reinvestment when things are bad. So, don't sit around and worry about what you haven't done, get back in there.

When you do decide to get back into the market, take a couple of things into account. Diversify your investments. Spread your investments into different categories such as stocks, bonds and real estate, as well as other investments. No one investment will ever be the best. Don't put more than 10 percent of your investment dollars in any one risky investment. With the proper diversification, you will not get hurt as bad in downturns of particular markets and you will enjoy the upturns each time they come along. When things aren't looking so good in one area you may want to add to that category or as I like to say, buy more when it's on sale.

If you believe in America and its ability to recover from whatever disaster that is thrown at it, you will believe in investing in its capital markets. Don't look at downturns as the end, but rather the beginning of the next opportunity. So let's all look upon the New Year as our next opportunity regardless of where it might occur. If you have been a victim of past mistakes like many investors, look forward to a new opportunity and learn from your mistakes. This can be applied in all aspects of business and only you can make it happen. It's your money. Make the most of it.

Thomas J. Berthel is CEO of Berthel Fisher & Co. of Marion.