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## Weathering the storm

### Don't let daily ups and downs affect investment decisions

By Winthrop Quigley Journal Staff Writer

Before Ernie Montgomery became a stock broker in Albuquerque, he worked in Africa for the State Department and for a foundation. It was during the dark days before the Internet or even particularly reliable telephone communication.

Montgomery says it was the time he had his biggest successes as an investor precisely because he was isolated. "I always did better when I was away from the flow of information," he said. "We are bombarded with much too much information."

The fact is an awful lot of data investors see every day, from the ubiquitous Dow Jones Industrial Average to the daily closing price of gold, contains no useful information, not if the objective is the accumulation of wealth over time, which is what the average investor should be focused on, said John J. Chavez, president of New Mexico Angels. The group helps link investors to small companies in need of capital.

"Today's markets don't really matter because your investment horizon is so long," Chavez said. "I see the Standard and Poor's (index of 500 stocks) go up and down, but to me, it really doesn't matter."

Focusing on the daily gyrations of markets carries a huge risk. "If you get over-excited, you're going to make bad decisions," Chavez said.

"The day-to-day fluctuations of the dollar or the Dow and so forth are really irrelevant to a guy who is putting money to work for the long term," said Montgomery, a vice president and financial consultant with RBC Wealth Management. "That should not be a factor in decision-making."

"Don't even look unless it's time to make a decision," said Stephanie Spong, who runs Epic Ventures' venture capital operations in New Mexico. That means abandoning your obsession with mutual fund statements, your 401K and your IRA.

Montgomery agreed. "The average investor looks at the quarterly fund statement and freaks when he sees the value is down," he said. "They think of it as money lost. It's not money lost. It's all on paper." The money is only lost if the investor sells at that newly depressed value.

"You've hired someone (via the mutual fund) to manage your money," Spong said. "Check in with them once in a while."

Spong has one inviolable exception to that rule. If a company or mutual fund develops a governance problem — when a company is accused of fraud, for example — sell your shares now. "The information you based your decision on is no longer valid," she said.

#### Ignore the pundits

Also suspect is expert advice.

"A lot of my clients are inundated with newsletters written by people who don't have anything to lose," said Jerry Robbins, Albuquerque branch manager of RBC Wealth Management. "They have no track record. They're not accountable. They brag about their winners. They don't tell you about their losers."

"It really irritates me on the business news television channels when they get excited about interviews with money managers," Montgomery said. "The so-called pundits. I don't listen to that."

"I don't watch TV," Spong said. "That information is not going to make me go online and buy stock. Ever. Even if it's Black Tuesday and God has announced it's time to sell, I'm just going to shrug."

The value of the business press is as an idea generator, said Critz H. George, a retired engineer and physicist who actively manages his own investment portfolio. "It should help you make a list of things that sound plausible. Then you start winnowing away."

### **Know thyself**

So what information does matter?

The financial writer George Goodman once observed that if you do not know who you are, Wall Street is an expensive place to find out. Self-knowledge is step one.

"Initially, you should be aware of what your objectives are, what you're investing for," Montgomery said.

"Know what you're looking for," Spong said. "Know what you resonate with and what's a good buy and know why you know that. That keeps you from getting tips from your hairdresser."

Conversely, George said, know when you're disappointed with an investment, understand why you're disappointed, then do something about it.

George thinks of himself as a surfer, looking for waves in markets and economies that he can catch and ride. When he noticed, for example, that Federal Reserve and government policies were pumping lots of dollars into the global economy, he reasoned the resulting cheaper dollar would help American companies with substantial foreign sales.

"It wouldn't be relevant unless you knew it was a trend and knew why it was a trend and were willing to take the step of changing your portfolio," George said.

"Once you've made your investments you should be aware of any news that might affect the choices you've made, adversely or positively," Montgomery said. If you bought PNM Resources for its dividend, you should be aware that PNM recently announced a dividend cut. If you bought a mutual fund because you admired its manager, you should know if the manager retires or quits.

If a stock is cyclical, a steel manufacturer, say, you should know where in the economy's cycle we happen to be, Spong said. You might want to sell a steel manufacturer when the economy is starting to slow and buy one when it begins to heat up. If you own a technology stock you should know what technology and market trends drive its price, she said. What moves Texas Instruments will not necessarily move Intel, even though they both make computer chips.

Interest rates matter. They dictate the company's cost of capital, and they set the price for bonds, which are sometimes a better investment than stocks.

Inflation matters. It can wreak havoc on all kinds of investments.

"For the next little while, if I had to watch one area closely, I would watch the housing market," George said. "Until that recovers, which is shown by stabilizing prices and recovery of sales and building, the U.S. economy is going to suffer."

Think globally, Spong said. Years ago, she noticed Korea was becoming more prosperous and its companies more aggressive in global markets. She bought a mutual fund that specialized in Korean companies.

"It's straight-forward, vanilla stuff," she said. "Pick an investment by screening for something you're looking for, not for what a broker or a talking head on television told you to do." **If you're in it for the long haul ...**

### **DO**

Know your objectives

Watch for news that could affect the companies you've invested in

Pay attention to the governance of companies in which you invest

**DON'T**

Pay attention to daily market fluctuations

Get upset by "on-paper" losses

Put stock in what media pundits say





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