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Myths in Stock Market Advice – Part 1

DISCLAIMER - I am not a Financial Advisor and do not work for any Brokerage Firm. The opinions given are my own and are not to be used as professional advice. These are my findings and can hopefully help you to make informed decisions on investing. Consult a Broker or Lawyer before making any investment.

Those of you who have been following my blog and articles for several months, know my reason for dong this is to share some of my findings in investing in the stock market. I want to help everyone to make good solid decisions when it comes to investing, and my first 40 articles have been tied to things that have worked for me or promising new things I am trying this year. The reality of the situation is that I can only share what I know to be the truth.

I have been investing in the stock market for over 30 years. I believe 2022 has been the most challenging year in my life trying to make sense of what is happening in the market. I have written several articles about the market and whether it was wise to continue to invest currently. The article about dealing defensively with a Bear market is:

https://lifecanbesimple.net/blog/defense-for-a-bear-market

Should we continue to invest currently:

https://lifecanbesimple.net/blog/should-we-keep-investing-now

The one thing I encourage everyone to do is to read and study. Due to all the ups and downs and the market not behaving like prior years, I have probably learned more in 2022 than in any year of my life. But the main reason I have learned so much is that I have learned about so many things that DON'T WORK anymore. Also, I have read many, many investment articles and the 73 books that I have completed thus far in 2022.

By applying the defensive strategies I mentioned in my earlier article, we have been able to finally show a profit in 4 out of 5 of our Roth IRAs. The S&P 500 is still down over 20% for the year. Considering how most of my IRAs were down over 10%, showing a 6.8% up at Schwab and 8.6% up at Vanguard testifies that the plan is working.

Of the five accounts we have, these 2 are the ones with the most Dividend Growth Stocks and Dividend Growth ETFs. Time will tell how effective this plan is going to be. It takes several years of up and down markets to prove your strategies. But in the process of evolving with the market, I have learned a lot of things. I want to share many of the things I know to be myths or outright lies. This will be the first of many articles about various Myths I have discovered.

MYTHS IN STOCK MARKET ADVICE

Too many assumptions are being applied to the market using 'Historical data' to prove things will be ok. This month, I have been reading 3 books that have opened my eyes to many, many false assumptions that people are taking as fact in Stock Market advice. Some of the myths are spoken by so many people for so long that I have accepted some of them to be the truth.

In the next few investment articles (perhaps the next 4 to 10), I will start explaining all the false things that are being put forth as truth that are clearly lies. I want to upfront recommend you read these next 3 books which have helped me identify some of the false things being taught today.

The first book is “I Will Teach You to Be Rich” by Ramit Sethi. This book not only teaches about the false things being promoted as truth, but he gives great advice on how to manage your money and how to put your investments into ‘automatic mode.’

The second one is by a Certified Financial Planner who worked for one of the larger investment companies. He has made me realize so many errors in my investment beliefs. This book's name is: “Stop Investing Like They Tell You” by Stephen Spicer.

I read this third one a long time ago, and it is not tied to just the lies being put forth, but it does cover several. The name of this book is “A Random Walk Down Wall Street” by Burton Malkiel.

These upcoming articles on Myths in Stock Market Advice will rely heavily on the findings of the first two books, some on the third book, and many things I have learned on my own over this past year.

One of the reasons that people make bad decisions in the stock market is due to FOMO and Herd Mentality. FOMO means the Fear of Missing Out. I wrote a whole article on how many people are so wrapped up in the Fear of Missing Out.

https://lifecanbesimple.net/blog/jomo-versus-fomo

People think that the stock market is easy money. And Herd Mentality says that if everyone else is doing it, I must get involved too. Don't worry about whether it makes sense. Just take the first bit of advice you hear and buy it. This is very very wrong. Every decision we make must be based on facts and part of a determined plan. Just because someone says something is a good buy, we should not rush out and purchase it without considerable study.

Sometimes the media is responsible for being vague if not misleading. Ramit Sethi mentions in his book that the media has accurately predicted 27 of the last 2 recessions. *smile* Don't believe everything you hear or read.

This next myth has had me and many others believe a lie. Even Dave Ramsey, the noted Radio Financial Advisor, and author has put forth this as fact also. Have you not heard that just continue to invest no matter what the market is doing, as the S&P 500 has gone up an average of 12% for the last 50 years? Well, that makes it sound pretty good does it not? I mean if you have a 12% down, then you must be headed for a 13% up next year. Sounds good, but it is not factual. The only way this works is IF history repeats itself the same for 50 years, and you can leave your money alone for 50 years, then you should get an average of 12% for the 50 years.

What is wrong with this picture?

1. History does not repeat itself exactly.
2. Most of us will hold investments from 5 to 20 years before selling them, not 50 years.

3. As you approach retirement, you can not stand a big loss. The reality is that you could be facing 5 years in a row with a loss.
4. Several 4-year spans had a loss of an average of 3% on the S&P 500.
5. If you break it into 15-year increments (S&P 500 over last 50 years, you will find that those 15-year increments did not even average 8% per year. 7.7% was the average.)

So with all this false information, we need to adjust our thinking. Clearly, this makes a huge difference in how we should invest.

Warren Buffet said that in the Stock Market, the Number 1 rule is to never lose any money. And Rule Number 2 is to never forget Rule Number 1.

This new rule is going to be my main focus. In our second installation on Myths, we will cover how a 25% loss is never regained by a 25% up in the market. Your dollar basis is now smaller, so it takes up to a 50% increase to offset that 25% loss. How many times have you ever had a return above 20% in the market? I think perhaps I have had it happen 2 times in 30 years. So we need to preserve our money most of all.

With this new knowledge, how good does that 9.62% we got out of those earlier I-Bonds we bought in early 2022? The I-Bond has dropped to 6.77%, but that is still a great return. I am purchasing more of those every week. Read about I-Bonds at:

https://lifecanbesimple.net/blog/best-investment-for-end-of-2022

So to preserve our capital, we need to use our brains. I am reading a book co-written by Zig Ziglar's son John Ziglar. It is on Hoopla Digital to read for free. The name of it is "Master Successful Personal Habits".

John says that Zig Ziglar used to say that every day of the year, some people are investing wisely and making good money while others are going broke. It is truly in the mindset and knowing WHAT we are doing. You can't change everything, but we can change ourselves. What goes on between your ears is what makes all the difference.

According to Zig Ziglar, many people suffer from POLM Disease. POLM stands for:

P – Poor

L – Little

O – Ole

M – Me.

Are you suffering from a PLOM pity party? The key to success is to learn from our mistakes and errors. Many have pity parties but never address their failures.

75% of the top 300 World Leaders in the past century were either raised in poverty or have had a serious Physical Deformity. This did not hold these leaders back.

It’s not what happens to you it is how you handle things that makes the difference.

There is no limit on what you can do internally when you set your mind to it.   But it takes effort to study and learn.

We need to stop believing myths and being fooled by marketing strategies. There is a pyramid scheme that effectively gets people to keep buying more and more making the greater fool of the latest purchasers.   Just because someone else made a huge amount of money on Amazon in the early years does not mean it will work at its inflated price today.

A Few More Myths:

Putnam investments studied the S&P 500. Every 15 years, it has averaged only 7.7% overall, not the current proposed rate of 10 to 12% which most people claim.

Many financial experts sometimes, many times, promote stocks in companies that have poor performance. In the book “The Smartest Investment Book You Will Ever Read”, Daniel Solon points out that financial predicting organizations like Morningstar continue to give thumbs up on ratings to companies that crater and file bankruptcy.

47 of 50 advisory firms continued to advise investors to “buy” or “hold” companies right up to their filing for bankruptcy. 12 of 19 still predicted to buy those companies while in bankruptcy.

So who can you listen to?   It is not mainstream media or people selling investment advice.   In our next article, I will

tell you how so many experts are accurately predicting the next big stock. It will shock you how easily the public is tricked.

So take my findings and learn to make better decisions. Keep reading and studying on your own. If you are a serious investor, be sure to read those 3 books I mentioned.

List of All Investment Articles https://lifecanbesimple.net/investments.html

List of All Minimalism Articles https://lifecanbesimple.net/minimalism.html