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Myths in Stock Market Advice – Part 3

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 make informed investing decisions. 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 doing 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. 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 wrote my first 2 articles on myths last month. I keep finding more and more lies being put forth as true, and I want to continue on the topic again and explain more myths. Remember to read those 3 books I mentioned in my first article. The link is below to both articles on Myths.

To read article one on myths, click below:

https://lifecanbesimple.net/blog/myths-in-stock-market-advice

Article 2 is here:

https://lifecanbesimple.net/blog/myths-in-stock-market-advice-part-2

MYTHS IN STOCK MARKET ADVICE

Myth: All you need to do is invest in your Roth IRA. Don't worry about how it is allocated. This is a very horrible piece of advice. You must decide where and how you want to invest in your IRA. In Ramit Sethi's book "I Will Teach You to be Rich", he gives an example of a lady who for 8 years put in $3000 to her Roth IRA.

However, after 8 years, it was barely worth more than $24,000. How could that happen? She never invested the money. It sat in a money account making a few percentage points each year. NOTE: When you put money into any Investment Account (401K, Roth IRA, or Traditional IRA), you must decide where to invest the money. Ramit Sethi gives

some advice on how to invest simply by using Target Date Mutual funds. Read about it here:

https://lifecanbesimple.net/blog/book-review-i-will-make-you-rich-by-ramit-sethi

Remember, just putting money into the account does not start your investment. You can use many methods to invest. If undecided, simple FULL STOCK MARKET INDEXES such as ITOT or VTI are good to start with.

Explanations of some of the main investment vehicles are here:

https://lifecanbesimple.net/blog/investment-categories

I wonder if you have ever been told by your broker or financial advisor that you don't need to worry much about the stock market movements. It never will drop 15% in one day. No one would lie about such an important thing, would they? I remember the day in October 1987 when the market went down 22.6% in one day. I know where I was on that Black Monday and everyone at work was in shock. It started dropping early on October 19, 1987 and fell all day. The odds of it happening were like a billion to one, but guess what, it happened.

Another great myth is "no matter how far it goes down, it will come right back in time." Well that sounds good. But the past is no guarantee that history will always repeat itself.

In 1949, there began an upswing in the Japanese Nikkei. (Their money standard compares to our dollar in the United States.) It started at $40, and constantly went up. For 20 straight years, it went up. There were a few downs, but it always quickly regained and went from $40 to $40,000 in 1989. But starting in 1990, it went down by 80% over the next 20 years. It has NEVER recovered. Well, that is in Japan, it could not happen in the United States, right? My question is “Why Not?” No one controls the market. It moves in strange ways, and it is not always in a positive fashion.

Since 1900 we have experienced 33 prolonged Bear Markets. A Bear Market is when you have a decline of 20% or more. So while history does tend to repeat itself, there are no guarantees.

I want to repeat Warren Buffet’s quote. He said his number one rule was “Don’t lose money in the stock market.” And Rule 2 is don’t forget number 1.

People believe it is easy to recover a 20 or 30% loss. Look at the information below. I covered it in the second article, but it is crucial to realize the importance of not losing money.

Loss Incurred	Gain Required
10%	11%
20%	25%
30%	43%
40%	67%
50%	100%
60%	150%
70%	233%
80%	400%
90%	900%
95%	1900%
99%	9900%

So if you lose ½ of your money, now you must have a 100% return to break even. How many of you ever made a 100% return in your IRA or 401K? I have been investing for 30 years, and I think my best year ever was 22%.

So our number one goal should be to never lose money. Not easy when you are trying for above-average gains, but there are logical ways to proceed cautiously.

So take these findings and learn to make better decisions. Keep reading and studying on your own. NEVER stop reading and learning. If you are a serious investor, be sure to read the 3 books I mentioned in the first article which is below.

https://lifecanbesimple.net/blog/myths-in-stock-market-advice

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