Shattering the Myth of Stock Market "Recovery"

By Samuel N. Asare, MBA, CRPC, CMFC

From time to time, when investors whose nest eggs are invested *in* the stock market experience decreases in the value of their portfolios—by virtue of market drops—many in the financial industry invoke the myth that investors needn't fret because the market (and their investment portfolios) will recover from those *temporary* dips. While majority of news outlets and even some financial advisors position it in that manner, we beg to differ because that is just not the case.

The absolute, indisputable financial fact is that from the perspective of a retirement investor *no variable investment portfolio works that way—absolutely NONE!* The fact is, only two possibilities exist when it comes to how variable investment portfolios work, and "recover" is not one of them. They either "gain" or "lose." What's more, once you lose, you can never (as in, it is 100 percent impossible) gain back what you've lost—ever! Once that money is gone, it's gone.

However elementary this may sound, no investor has ever received his or her investment statement and seen the word "gain" replaced with "recovery." You are smart, so you understand that such wordplay could create an illusion and prevent further probing. We must admit though that invoking the word "recovery" is an excellent way to calm frayed investors' nerves.

This illusion has led many investors to the erroneous understanding that it would take the same percentage gain for a portfolio to "break even or gain back what it lost" after a given loss. For example, most Americans expect that a 15 percent loss of value would be fully "recovered" by an equal 15 percent gain but that's again not how things work in reality.

Let's consider a $1,000 investment portfolio: If it experiences a 15 percent loss, the new value would be $850 ($1,000 minus the 15 percent, or $150 loss). An equal 15 percent gain on the now $850 balance would be $127.50, which will increase the portfolio's value (by 15 percent) to $997.50. So, minus 15 percent followed by a 15 percent gain is less than the initial $1,000. To return to that prior $1,000 would require a gain of $150 on the $850 which is 18 percent. In the same vain, a 20 percent loss would require a 25 percent gain to breakeven, a 12 percent loss needs a 14 percent gain, and a 50 percent loss demands a 100 percent gain to gain back everything it lost.

Generally speaking with all other things equal it would take a much bigger gain after your portfolio loses to "recover." As a retirement (or retired) investor, shouldn't your focus be on making reliable consistent gains as opposed to taking dips here and there and then trying to "recover" from those loses? Did you know that there's a proven, time-tested investing strategy that allows certain investors just like you to tie the appreciation of their nest eggs to a stock market index and therefore never lose a penny whenever the stock market dips? Yes, absolutely nothing! The plain and simple question here is: could you afford to leave the certainty of your retirement livelihood at the full whim of the stock market in this new economy?

Irrespective of where you are in your retirement planning (even if you are already retired), if you'd like to have a conversation about some no-nonsense, proven, techniques that will work to give you true retirement peace of mind and reliable income, schedule a personal, private, complimentary consultation with one of our experienced, licensed professionals. You may also join us at our next educational workshop, to be held Saturday, November 12, 2011 at 11:30 a.m. at the Holiday Inn right next door to Ikea, in College Park. There are *absolutely no strings attached* whatsoever! But you must make an appointment and/or reserve your workshop seat at (301) 949-4449 or LaserFG.com. ✣

About the Author

Samuel N. Asare is the senior strategist at Laser Financial Group, LC., an accomplished income planning expert, a Chartered Retirement Planning Counselor, Chartered Mutual Fund Counselor, and author with a superb ability to simplify complex financial strategies. He regularly contributes to and is featured by various media outlets, including TV and radio. To request your complimentary, no-obligation consultation, get straight-forward answers to your questions, or simply for great retirement insights, call (301) 949-4449, visit LaserFG.com, or connect at facebook.com/LaserFG