

The “Buy and Hold” Headache

By Michael J. Searcy



Buy and Hold theory? More like “Buy and HOLD ON TIGHT!”

Investors who subscribe to the buy and hold theory probably have some ghost-white knuckles these days, as their decision to ride out a market probably has them skimming the highest highs and brushing the lowest lows, holding on to the safety bar with all their strength. History may show us that returns relatively even out in the end, but this statement doesn't take into account the amount of time you have to stay on the rollercoaster before getting back to the starting line. If you're nearing retirement, you may not have the time to “hang on” to the market roller-coaster that new investors might have the luxury of, but no matter your age or stage in life, who really wants this headache?

Buy and Hold Theory

Some call it a theory, others a myth, but whatever the term you use to describe buy and hold, the fact is that many investors and advisors alike have been preaching its benefits for years. Proponents will say you can build a sophisticated, diversified portfolio, stay fully invested until you're ready for retirement, and you should come out better than with any other investment strategy you might have implemented during those years.

Among the reasons why this theory isn't a wise decision for investors, there are two significant oversights. The first, every investor is unique, so to implement a theory that has the same rules for every investor at every age could produce unfavorable results. Factors such as your financial goals, risk tolerance level, and time horizon should help shape your investment portfolio and the strategies implemented to help you reach your goals. A young investor may be more comfortable with an investment that could take more than 10 years to provide the returns they expect (while accounting for inflation), but an investor nearing retirement that plans to utilize the results of their investment strategy as income in the near future doesn't have the time to wait.

Also, technology is much more advanced than when the buy and hold theory was introduced. Fees and our knowledge base have both been positively

affected by the advances in technology. To purchase an investment product in the past, an investor had to deal with steep commissions and costs associated with every transaction. Buying one investment product and holding on to it for a long time could help save on these related fees. If you were holding many products, the fees and commissions could add up quickly. Now, trade costs that were once in the hundreds of dollars cost just a few dollars per transaction. We also have to-the-minute reporting on changes in the market that allow us to follow shifts that may impact our portfolios and make smarter, timely and more tactical investment decisions.

Buy...But Be Flexible

A more appropriate investment strategy might be to “buy...but be flexible.” This means having a process to manage your investments that keeps you continually looking at your portfolio and continually assessing market conditions. A process that includes steps such as choosing your appropriate risk tolerance, allocating your portfolio to core holdings and tactical sectors, implementing the “Best of Breed” investments and monitoring your performance against benchmarks can keep you on track to making the market work in your favor.

Don't Go It Alone

To salvage your sanity, we advise working with someone who can implement the process of “buy...but be flexible” for you. Not many people can stop and spend their hours, weeks, or months watching the market go every which way while also keeping up with ambivalent news reports that are broadcast at an increasingly frequent and nauseating pace. Instead, you should stay focused on your long-term goals while a trained advisor is attending to the roller-coaster ride and overabundance of competing information. Their job is to stay level-headed no matter the situation. ☞

Michael J. Searcy, ChFC, CFP®, AIFA®, is president of Searcy Financial Services Inc., a registered investment advisory and financial planning firm located in Overland Park. For additional information, visit SearcyFinancial.com.