

What to do (and not to do) in the stock market

MONDAY, 08 AUGUST 2011 08:47 |



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NEWJERSEYNEWSROOM.COM

BOROSON ON MONEY

My best advice whenever the stock market tumbles:

1. Don't go crazy and go on a buying spree. That's for amateurs. Just because a stock was once \$20 and is now \$10 doesn't mean it can't go to \$5. As Lord Keynes said, the stock market can remain irrational longer than you can remain solvent.

2. What shrewd investors may do at a time like this is: nibble. If there's a stock or mutual fund you think is very good and very cheap, start buying a little – not a lot.

3. Don't go crazy and sell out. The stock market always rebounds. Sooner or later – in this case, I sadly suspect, later. We need to spend more, in order to goose up the economy. But instead, thanks to the Tea Party, we're drinking Kool-Aid. In any case, remember that if you sell a big percentage of your stocks now, later on you'll have another tough decision to make: when to get back in.

4. Should you sell anything? Yes — if you think you don't have enough cash to survive a long stock-market malaise. Today's stock prices are the devil you know; they may go lower...if, sometime in the future, people discover that they desperately need more cash.

5. What to sell? Losers in taxable accounts. It's a good time polish up your portfolio. If you have any big losers – and it's up to you what "big" means – consider selling them and buying something clearly better. Or at least as good. Just for the tax deduction. I don't have any big losers – because I've held most of my positions for years and years. But I might sell my Wal-Mart, on which I've broken even, and buy more shares of the Appleseed Fund. (Then again, maybe in these dismal times a stock like Wal-Mart will hold its own.)

6. What about selling stuff in your retirement account, or selling stuff on which you have gains, just to improve your portfolio? Other things being equal, it's better to sell losers in taxable accounts.

Not to end on a negative note: One astute observer, Scott P. Noyes, CFA, CFP, of Noyes Capital Management (pictured) in New Vernon, writes: "My best guess is that the market will find a way to recover all or part of this decline over the next six months. Once the shock is past, investors will realize there is nowhere else to earn a return on their investments. Stocks are on sale, currently 12 percent off the highs. Value shoppers should take notice. I believe patience will be rewarded."

