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Stock markets: get in or get out?

With recent record highs posted, investors struggle to strategize

By Bradley Zucker

Guest Columnist

Back in 2008, the financial world completely changed. The stock market plummeted, the housing markets here and around the country deteriorated, and consumers quickly lost confidence in the economy. As a result, many investors fled the markets and opted for more conservative, low-yielding investments like CDs and Treasury bonds.

Fast-forward to May 2013: the S&P hit a record high of 1,600, and one week later the Dow Jones Industrial Average closed above 15,000 for the first time. As of the end of May, the S&P had gained more than 15 percent this year and the Dow more than 16 percent, the fastest start to any year for the Dow since 1999.

What's behind the record market highs? There are multiple factors, but perhaps the strongest is that retail investors who left the market in 2008 have slowly been moving back in, especially since the start of this year. More than $50 billion was invested into the markets during the first quarter of 2013, the biggest jump in domestic money flow since March 2000.

For some, it might be tempting to buy back into the market while stocks are heading up. Others might feel that record highs are a time to sell. So which is it? Well, that depends on your goals and financial situation.

First of all, it's important to learn from history. The first time the Dow hit the 13,000 mark was in May of 2008, just months before the national and local economies began their downward spiral. On the other hand, entering the market at milestones doesn't necessarily mean you won't capture additional gains either. For example, in October 1982 the S&P beat its previous all-time high, and it continued to soar all the way until October 1987.

Before determining your next investment move, think of your financial goals. If you are within five years of retirement or have a large purchase coming up, you should be wary of investing in too many high-risk investments. Even though the markets are doing well right now, history has shown us that the trend doesn't always continue. If you're unsure how much money you might want to invest, try the Rule of 100 — subtract your age from 100, and the difference is the approximate percentage of your portfolio that may be appropriate for higher-risk investments. Also consider how strong your stomach is and how much you're willing to lose. Even if your timeline to retirement says you could invest more, don't subject yourself to risk you aren't willing to take.

If you are in the market or are considering getting back in, make sure you have a plan. The first step of your plan should be to decide on your investment goals and limits. Drawing your line in the sand will help you avoid emotional investing. Emotional investors tend to buy high and sell low, and make knee-jerk reactions based on current market performance. Next, know your risk tolerance and invest with it in mind. Don't have more money in the market than you can afford to lose. Finally, learn from your mistakes. If you lost money in 2008, learn from your previous vulnerabilities so you don't make the same error twice.

With cautious optimism and a solid financial plan, Henderson investors can be prepared for any economic environment.

Bradley Zucker, financial educator, president, and chief financial advisor of Safe Money Advisors, Inc. a Henderson-based independent financial advisory firm, specializes in comprehensive financial and retirement planning including conservation of capital, preservation of principal, tax-advantageous distribution of a life-saving and competitive asset growth with little or no downside risk. For more information about Mr. Zucker and Safe Money Advisors, Inc., please visit www.SafeMoneyAdvisorsNV.com.