"There is no such thing as a ‘sure thing’ in the market. So if you are set on doing your own investing, realize there will be ups and downs." — RB

Counter uncertainty with a sound investment plan

"Man is extremely uncomfortable with uncertainty. To deal with his discomfort, man tends to create a false sense of security by substituting certainty for uncertainty. It becomes the herd instinct." — Bennet W. Goodspeed, The Tao Jones Averages

I learned about this first hand over 20 years ago when I began trading a commodity system I helped to develop. In two years, the system had huge returns. Unfortunately, by the end of those two years, every client had quit because there was too much uncertainty.

Uncertainty wreaks havoc with many investors’ fortunes in the stock market. It’s an unfortunate aspect of human nature that when left to our own devices, we tend to sell at the lows (panic) and buy at the highs (euphoria). This is why I stressed having a portion of one’s investments managed for you in Part I.

Get a real plan

Professionals have a plan and exercise it. Most investors don’t.

There is no such thing as a “sure thing” in the market. So if you are set on doing your own investing, realize there will be ups and downs. Though we have been in a long-term bull market since the 18th century, there were hiccups along the way.

What often causes investment failure is timing and our insistence on “being right.” We sometimes have love affairs with equities. I have seen enough promising companies go the way of the buggy whip, however, to know that the most important thing is knowing when to sell. Most of us never do, which is why most of us must put our money in a mechanical program that is diversified, disciplined and deliberate.

I have three programs that fit this bill and they have all beaten the pants off most mutual funds for the past 13 years. Does this mean that if you try them, you, too, will beat the market? Hardly. It doesn’t even mean you will make money over the next few years, no matter what program or stocks you choose. But you do put the odds in your favor.

The “Dogs of the Dow”

The first of these is called the “Dogs of the Dow.” You take the 10 highest dividend stocks in the Dow, then pick the four lowest priced stocks and choose either stocks #1 to #4 or #2 to #5 and buy an equal amount of each of them. You don’t buy the #1 stock if it is also the highest dividend. After one year, you switch out of the stocks you have owned that are no longer “dogs” and buy the new ones that are. Then wait another year and do it again. With this program, you are basically betting that GM or Dupont aren’t going out of business in the next year. The “Motley Fool” Web site (http://www.fool.com) has the results of over 30 years of historical testing. This value and dividend-oriented approach has averaged about 20% per year with only three losing years.

Two other approaches are called “Spark 5” and “PEG 5.” The companies on these programs have earnings acceleration, price momentum and estimates of...
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future increased growth. This means the street has recognized that these are up-and-coming companies who (hopefully) will continue their current pattern of rapid price appreciation. The returns can be greater than the Dow dog approach, but there is also more volatility. Like with the Dow approach, at the end of one year for "Spark 5" picks and every six months for "PEG 5" picks, you exit those no longer on those lists and exchange them with new ones.

If none of this strikes your fancy, stick with companies you are familiar with and figure out your selling strategy. Some people like to set a price point below which they don't want to see the stock trade. If it does go lower than that, they sell. Others prefer to set a fundamental exit point. An example of this is when someone gives you one of those world famous "hot tips." You have been informed that the company has just been given a license to steal and an announcement is imminent...and nothing happens. Just remember the old adage about cutting your losses short.

A good mix for most investors' portfolios would include:
1. Professional management
2. Mechanical approaches
3. Your own thing

If it sounds like I'm overly cautious, it is because after so many years of stellar returns, it is sometimes easy to lose sight of things like bear markets. There is no excuse to invest without being informed and prepared.

— The author is a registered principal/independent stock and commodity broker with more than 20 years experience in the financial industry. Contact him at 800/643-1155.

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The most important thing is knowing when to sell. Most of us never do, which is why we opt for a diversified program.