

Seven Stock Market Truths



Dr. Gary J. Harloff, Ph.D.

If you are like me, your retirement life style is riding on your success in the markets. Yet it is surprising how little some of us know about investing.

Forget about the hot tips and market forecasts provided by the television talking heads. Even the highest paid consultants are seldom correct. Often these tips are really sales pitches meant to drive commissions to their broker-dealer company. The actual life of a hot tip is only about 7 seconds. How can many of us gain from tips with this short time span? Or you might make some real money from insider information, until discovered by the SEC, and you then asked to take a long vacation in a government facility.

Yet, your golf friend always brags that his advisor beats your advisor's return. You don't realize that he always inflates his performance. And you are off in search of the Holy Grail.

We all want the "Holy Grail" of investing, and constantly search for it. In thinking about the Grail, I have developed a list of seven stock market truths that you may profit from.

#1 Diversification is a cornerstone to investing. A good stock portfolio may contain 8-10 uncorrelated stocks. Knowing the magic 8 or 10 is the problem. A portfolio of mutual funds needs fewer than one with stocks since funds usually have 80-100 stocks in

them. This is why we employ mutual funds in our portfolios.

#2 The markets constantly change. For example, stocks may outperform bonds one year, and the next year it reverses. Value stocks often beat growth stocks, but not last year. To really stay with the ever-changing markets one needs to spend nearly full time analyzing the markets with accurate and sound analytical methods. Most advisors do best in a special kind of market, and under-perform when the markets change.

#3 Accurate on-going analytical market analysis is needed to remove emotional mistakes we are prone to make. But most advisors fool their clients into a false sense of expertise when they use stale three to twenty year statistical data. Most advisors lack the ability to compute market statistics and are motivated to sell, not manage, funds to clients. Some even convince their clients they know the market because they can count from one to five (stars). During the recent bear market, 2 and 3 star funds beat 4 and 5 star funds due to stale statistics. What is actually needed, and few advisors provide, is accurate analytical analysis of the markets. How many of us have the knowledge and time to analyze markets on a continuous basis?

#4 The buy-and-hold strategy is the broker's strategy, not the investor's strategy. When you buy A or B shares of a mutual fund you need to hold the fund for at least a year to begin to make back the lost 5-8 % sales commission. Because the brokers and planners are focused on sales, they won't touch your portfolio until next year when you **(OVER)**

“need” to buy new funds. The funds we employ are no load (no commissions). No load funds are needed for active portfolio management.

#5 Active portfolio management is a strategy formulated for investors, not for brokers. It seeks to evaluate return and risk on a continuous basis. The potential benefits of active portfolio management are to exceed typical investor returns, and to manage downside risk. This is important since the typical investor historically obtains about 1/5 to 1/3 of S&P500 returns as reported by Dalbar Inc. for several 13 to 18 year periods. This is most likely due to poor buy-sell timing capability. Investors typically give up near market bottoms.

#6 Most strategies usually stop working. Most strategies are empirical and have to be constantly fine-tuned. At some point the market character changes and the strategy stops working. In contrast to this approach, our new technology has been developed with goals that it doesn't need empirical adjustments, is universal, and works in all markets. Our technology is not available to Wall Street. There is very little original technology available to any investor. We have been developing our technology, using skills of a university and industry trained Ph.D. scientist.

#7 Investment management is crowded in terms of how many advisors there are, but is untapped in terms of skill and ability. Our mathematical modelling makes all the difference and gives our firm a definite advantage over our rivals.

Investment advisor background

Harloff Capital Management, Harloff Inc. is a money management firm conveniently located in Westlake, Oh. The firm was started in 1981 and registered as an investment advisor in 1994. Dr. Harloff earned a Ph.D. in AeroSpace Engineering and worked 27 years in Aero and Energy including 10 years at NASA in computational propulsion and aerodynamics. He began his investment research in 1970. He rejects the buy-hold and count 3-year-star approach employed by nearly all advisors and does his own original analysis. His new technology was developed to analyze any fund in any market in any country and is employed in our portfolio allocation process.

Next step

We want to help you reach your investment goals. If you need more help and expertise than your advisor is providing, please stop in or call us. We can set up a free meeting to see how we can help you. Contact us today as the markets are ever changing. For faster service, call **440-871-7278**.

Sincerely,

Gary J. Harloff

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Past performance does not insure future performance. Investing in the stock market involves the risk of loss.

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