

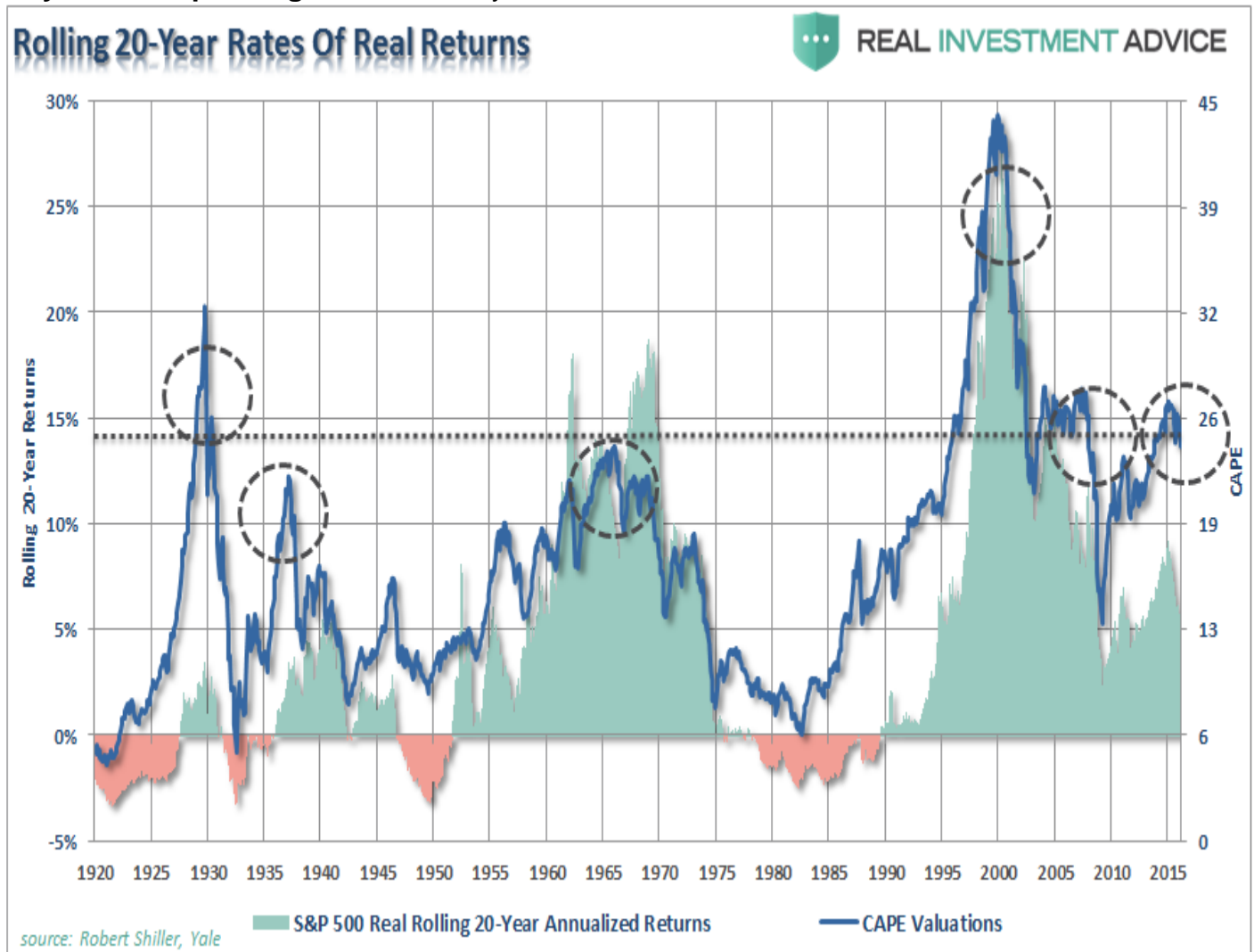
## 10-Steps To Curing The "Trading Addiction"



### THE ADDICTION

Those who've had any brush with addiction know an addict will go to any length to support the habit, including stealing, lies and deception. The addict is aided and abetted by co-dependent friends and family members who cover up for the addict's bizarre behavior and pretend nothing's wrong. Breaking the addiction starts with the co-dependents recognizing their role and refusing to provide support to the addict. **Investors have been turned into stock market addicts with their addiction aided and abetted by the media, the financial community, analysts, neighbors, friends and the local checkout clerk.** Since 1990, when the Internet began to mainstream investing to the average investor, millions have been lured by the promise of the lifestyles of the rich and famous by simply playing "*the game*." Now, after eight years of a bull market, investors are piling into the market for their next fix, living from one headline to the next looking for reassurance "*this time is different*." But why wouldn't they considering they have been repeatedly told the stock market is a "*sure thing*", a near guaranteed way to make money. It's so easy, after all. **You just "buy and hold" stocks and the market will return 10% a year just as it has over the last 100**

**years.** This fallacy has been repeatedly espoused by pundits, brokers, financial advisors, and the media. Even Dave Ramsey, the famous debt counselor, espouses buying and holding four mutual funds (25% in each of *growth*, *growth & income*, *aggressive growth* and *international*) and then bingo ? you will make 12% per year. If it were true, then explain why roughly 80% of Americans, according to numerous surveys, have less than one years salary saved up on average? Furthermore, **no one who simply bought and held the S&P 500 has ever lost money over a 20-year time span.** Right? Not exactly.



Here is the problem. **No matter how resolute people think they are about buying and holding, they usually fall into the same old emotional pattern of buying high and selling low.** Investors are human beings. As such we gravitate towards what feels good and we seek to avoid pain. When things are euphoric in the market, typically at the top of a long bull market, we buy when we should be selling. When things are painful, at the end of bear market, we sell when we should be buying. In fact, it's usually the final capitulation of the last remaining "*holders*" that sets up the end of the bear market and the start of a new bull market. **As Sy Harding says in his excellent book "*Riding The Bear*," while people may promise themselves at the top of bull markets they'll behave differently:**

*"No such creature as a 'buy and hold' investor ever emerged from the other side of the subsequent bear market."*

Statistics compiled by Ned Davis Research back up Harding's assertion. **Every time the market declines more than 10% (and "*real*" bear markets don't even officially begin until the decline is 20%), mutual funds experience net outflows of investor money.** Fear is a stronger emotion than greed. Most bear markets last for months (*the norm*), or even years (*both the 1929 and 1966 bear markets*), and one can see how the torture of losing money week after week, month after

month, would wear down even the most determined "buy and hold" investor. **This is also why the next true "bear market" will demolish the "RoboAdvisor" industry as "buy and hold" once again reverts to "get me the \*&%@ out!"** But the average investor's pain threshold is a lot lower than that. The research shows that it doesn't matter if the bear market lasts less than 3 months (like the 1990 bear) or less than 3 days (like the 1987 bear). **People will still sell out, usually at the very bottom, and almost always at a loss.** So THAT is how it happens. And the only way to avoid it - is to avoid owning stocks during bear markets. **If you try to ride them out, odds are you'll fail. And if you believe that we are in a "New Era," and that bear markets are a thing of the past, your next of kin will have my sympathies.**

## 10-Step Process To Curing The Addiction

**STEP 1: Admitting there is a problem** The first step in solving any problem is to realize that you have a "trading" problem. Be willing to take the steps necessary to remedy the situation **STEP 2: You are where you are** It doesn't matter what your portfolio was in March of 2000, March of 2009 or last Friday. **Your portfolio value is exactly what it is, rather it is realized or unrealized.** The loss is already lost, and understanding that will help you come to grips with needing to make a change. Open those statements and look at them ? shock therapy is usually effective in bringing about awareness. **STEP 3: You are not a loser** Most people have a tendency to believe that if they "sell a loser," then they are a "loser" by extension. They try to ignore the situation, or hide the fact they lost money, which in turn causes more mistakes. This only exacerbates the entire problem until they then try to assign blame to anyone and anything else.

*You are not a loser. You made an investment mistake. You lost money.*

It has happened to every person that has ever invested in the stock market, and there are many others who lost more than you. *Anyone, and I do mean anyone, who tells you that they have never lost money in the markets, is a liar!* **STEP 4: Accept responsibility** In order to begin the repair process, you must accept responsibility for your situation. **It is not the market's, current advisor's or money manager's fault. It is not the fault of Wall Street, nor is it the fault of the demon breed of corporate executives.**

*It is your fault.*

Once you accept that it is your fault and begin fixing the problem, rather than postponing the inevitable and suffering further consequences of inaction, only then can you begin to move forward.

**STEP 5: Understand that markets change** Markets change due to a huge variety of factors from interest rates to currency risks, political events to Geo-economic challenges. **Does it really make sense to buy and hold? If the markets are in a constant state of flux and your portfolio remains in a constant state then the law of change must apply:**

*The law of change: Change will occur and the elements in the environment will adapt or become extinct and that extinction in and of itself is a consequence of change.*

Therefore, if you are a buy and hold investor then you have to modify and adapt to an ever-changing environment or you will become extinct. **STEP 6: Ask for help** This market has baffled, and confused, even the best of investors and will likely continue to do so for a while. So, what chance do you have doing it on your own? **Don't be afraid to ask, or get help, if you need it.** This is no longer a market which will forgive mistakes easily and while you may pay a little for getting help, a helping hand may keep you from making more costly investment mistakes in the future. **STEP 7: Make change gradually** No one said that change was going to be easy or painless. Going against every age old philosophy and piece of advice you have ever been given about investing is tough, confusing and froth with doubt. **However, make changes gradually at first ?**

**test the waters and measure the results.** For example, sell the positions that are smallest in size with the greatest loss. You will make no noticeable change in the portfolio right away, but it will make you realize that you can actually execute a sell order without suffering a negative consequence. Gradually work your way through the portfolio on rallies and cleanse the portfolio of the evil seeds of greed that now populate it, and replace them with a garden of investments that will flourish over time. **STEP 8: Develop a strategy** Now that you have cleaned everything up you should be feeling a lot more in control of your portfolio and your investments. **Now you are ready to start moving forward in the development of a goal-based investment strategy.** If your portfolio is a hodge-podge of investments, then how do you know whether or not your portfolio will generate the return you need to meet your goals. **A goal-based investment strategy** builds the portfolio to match investments, and investment vehicles, in an orderly structure to deliver the returns necessary with the least amount of risk possible. **Ditch the benchmark index and measure your progress against your investment destination instead.** **STEP 9: Learn it. Live it. Love it.** Once you have designed the strategy, including monthly contributions to the plan, it is time implement it. **This is where the work truly begins.**

- *You must learn the plan inside and out so every move you make has a reason and a purpose.*
- *You must live the plan so that adjustments are made to the plan, and the investments, to match performance, time and value horizons.*
- *Finally, you must love the plan so that you believe in it and will not deviate from it.*

It must become a part of your daily life, otherwise, it will be sacrificed for whims and moments of weakness. **STEP 10: Live your life** That's it. You are in control of your situation rather than the situation controlling you. The markets will continue to remain volatile, a major "bear market" is coming at some point, and there will be lots of opportunities to make money along the way. But that is just how it works. As long as you work your plan, the plan will work for you and you will reach your goals eventually. There is no "get rich quick" plan. So, live your life, enjoy your family and do whatever it is that you do best. **Most importantly, make your portfolio work as hard for you as you did for the money you put into it.**