

Rodger on Retirement

Free stock trades do not equal a secure retirement

I recently read a popular financial magazine and was struck by an advertisement featuring a smartly dressed young woman. The headline informed the reader that “now is the moment to focus on retirement,” spinning it as a quick on-the-go type of deal. I re-read the ad several times as it seemed a bit odd. Being a retirement planner, I am well aware that planning does not occur in a moment. It is a process. It is a logical, step-by-step methodology to get you from point A, where you are now, to point B, where you wish to go. There are rarely shortcuts, fill-in-the-blank formulas, quick fixes, and definitely no such thing as a 15-minute retirement plan.

The ad went on to explain that the company running the advertisement was well equipped to assist you with dozens and dozens of free trades. One might infer from the magazine ad that the more trading you engage in, the greater probability of a secure retirement. This is not always the case. Studies conducted by Terrance Odean and Brad Barber found that investors involved in a high degree of trading actually experienced lower returns. The numbers reflected the fact that the more they traded, the poorer their returns were.¹ While reviewing a study of how long investors owned common stock, I was struck by the fact that ownership has shrunk from an eight-year average in the 1960s to something less than a year.² This bears out the idea that trading stocks, or better yet, renting them, has replaced the idea of true long-term ownership.

The 24-hour financial networks parade a series of “experts” on their shows counseling you on what economic sectors to overweight and underweight in your portfolio and which precious metals to trade into and out of. They try to advise you on what should be bought prior to a Fed announcement and what should be sold following the announcement. The commercials then instruct you to transfer your account to firm X and receive 100 free trades in the first 30 days.

Call it a great sport – perhaps “muscle bound trading on steroids” – but it is not the investing I have learned over 35 years in the financial services business. My view of investing is to begin with a plan that will foster the creation of an overall strategy. Once the strategy is in place, an investment plan, created by you and your advisor, is the vehicle that will help you to achieve your objectives. I recommend that you and your advisor engage professional managers to utilize time-tested investment strategies that have delivered strong and consistent investment results through many different market cycles. Frankly, I do not see, nor do I understand, how 50 or 100 free trades in a month can help you achieve your retirement goals.

¹ The Journal of Finance • volume LV, NO. 2 • April 2000 Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors Brad M. Barber and Terrance Odean

² Businessinsider.com 8/6/12

Rodger Alan Friedman has over three decades of experience designing and managing retirement portfolios and advising clients on retirement matters. For additional information and a free special report on preparing for retirement, please call 1-844-3-MY-PLAN or visit my website:
ForgingBondsofSteel.com

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