

Why Investors Lose Money on Wall Street

By: Roger Shumaker – Co-host of ‘Money Talk’ heard on KMAJ-1440AM Saturdays at 9:05am



Now live on the web at www.KMAJ1440.com! Investors fear losing money, but they are almost as afraid of losing out, of not making money when they could have. This is referred to as the fear and greed cycle and is one reason the Wall Street pros make money while the individual investor often loses it.

Here’s what typically happens. Let’s use a hypothetical investor named Sam. Sam hears about how much money his buddies are making in the stock market. So, Sam decides to invest his retirement money in the market. He goes to his local advisor who promptly throws his money into the market, while Sam imagines all the money he’s going to make.

Well before long, the market starts to go down, maybe it loses 3%. (By the way, there will always be times when the markets go down.) Sam figures the market will turn around in a few days, and often it does.

But this is one of those times when the market continues to go down. Now Sam thinks, “What if this keeps dropping? I’m losing money, not making it!” So Sam calls his advisor, and inevitably the advisor tells him to just hang in there, it will come back.

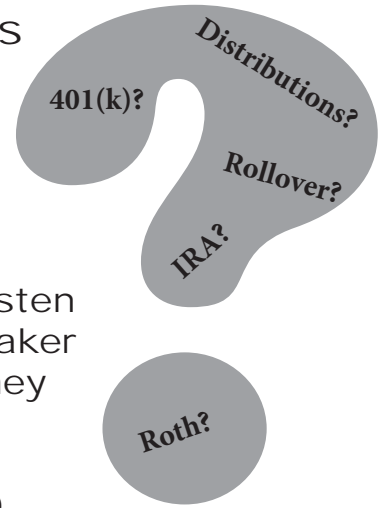
But this isn’t a normal correction and the market continues to decline. It’s up one day and down the next, but it’s down more than it’s up. This goes on for days and then for weeks. Before Sam knows it, his account is down 7-8%.

Sam is really getting nervous at this point. Everything he hears tells him that the market and the economy are in terrible shape. And now, the thought of losing even more money is keeping him up at night. (By the way, Sam hasn’t heard from his advisor all during this time.)

The next morning he can’t take it anymore. He calls

So many financial questions..

How will this affect my retirement plans?



For answers, listen to Roger Shumaker on “Senior Money Talks,” 9 am Saturdays on KMAJ AM-1440.

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his advisor and tells the advisor to sell everything! The problem, though, is that there are millions of "Sams" out there and they are all calling their advisors and saying the same thing. You can imagine what the markets do that week! When there are more sellers than buyers the prices drop, and drop quickly.

In the end, Sam loses around 10% and vows to never invest in the stock market again; or at least to wait until things turn around. Soon, sometimes within days, the markets start going back up. Sam hears about it on the news, but the pundits are still saying that the economy is in terrible shape. So he decides it isn't time to get back in.

After a while, the markets are up so much that everyone on the news is talking about how great the markets are. Those same experts that were saying the economy was so bad are now saying the crisis is over and that the markets will continue to go up and up.

At last, Sam thinks the danger is past. He calls his advisor and moves his money back into the market. Remember, there are millions of "Sams" out there and they are all calling their advisors and saying the same thing. The markets may continue to go up for a while, but before long they will start to correct.

I think you get the picture. It seems like all that Sam does is lose money. Why? Because, he's acting just like everyone else. And that's the problem.

To make money in the markets you need to buy before everyone else buys and you need to sell before everyone else sells. Professionals call this the fear and greed cycle. Professionals are well aware of what the Sams of the investing world are thinking and the actions they will take.

Investing in the stock market is a zero sum game. What that means is that every time one person is making a dollar, someone else is losing one. Whenever you buy a stock there is someone selling it to you and vice versa. Who do you think was buying Sam's stock when the markets were down 10%, like they were the first quarter this year? It's the

professionals. Who do you think was selling that same stock back to Sam later when the market was up 10-15%? That's right, the professionals.

That's why it's the professionals that make money on Wall Street and not the individual investors that are following the advice of their traditional "just hang in there" advisors.

Roger Shumaker is the President of Retirement and Tax Solutions and can be reached (785) 228-0222. His office is located at 5909 SW 28th St. #100, Topeka, KS. Call today to schedule a time to discuss the importance of an Independent Objective Portfolio Analysis.

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