Registered Investment Advisor Firm

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Please Don't Go!

"I'm sorry, it won't happen again, I'll be better, I'll get better, I promise, please don't leave me!"

No, this is not a conversation between you and a friend or your significant other. This is your investment that you knew you should have left long ago, but maybe, just maybe it would come back, improve and get better, so you hang on.

In past newsletters I've discussed investor psychology and why we tend to do what we do when buying and selling certain investments. Far too often we buy something that maybe runs up for a brief or even an extended period of time and we fall in love with it no matter what. Read this very carefully…***your investments don't care, they don't know you, love you or anything else***. They have no memory of what you paid, where they've been or where they may end up.

Those that tend to fall "in love" with a particular security may even buy more as the trends, fundamentals or markets rollover and retrace, stealing from you all the gains you failed to lock in before ultimately falling below, sometimes well below your entry price. You may think, "I know it's coming back, I can feel it, it has been too good to me in the past. I'll just buy some more and when it does come back I'll be that much further ahead."

Does anyone remember Enron or WorldCom, or a hundred other companies that went from stellar performance to non-existence?

Sure, sometimes securities do come back and go on to higher valuations and when you're on that ride, it's a great feeling. But if you don't have some sense of what to look for in evaluating both fundamentals and technical indicators, your basing your investment future and outcome on little more than hopes and dreams.

For instance, absent an unforeseen economic or geo-political shock, a security will typically provide some indication of a reversal. Whether it's following a bullish "cup-and-handle" or "inverted head-and-shoulders" formation, certain attributes and performance expectations can be measured and watched. Not all will follow through and some can take a considerable amount of time to confirm. But just because a position may have triggered your "stop," the point where you hopefully decided to sell even before you decided to buy, doesn't mean it was a bad investment decision or that the security can't reverse itself and continue upward. In those instances, if the security is still on your radar, you watch for a sustained follow through to confirm the direction and thereby your decision to exit the position. If it does continue upward, you weren't wrong, you were disciplined and you can always re-enter the trade if it makes sense in your circumstance to do so again.

For any of you that find yourself entering a position because of the total return potential, counting on a combination of dividends and price appreciation, your window of error might be slightly greater than someone just looking for price appreciation alone.

Besides determining where, from a performance standpoint, you decide to exit your "relationship," you need to also be sure you haven't risked your financial future on this "ungrateful relationship."

You must, as I wrote about in the July 2013 issue, determine your proper "position-size," typically never putting at risk more than 1% to 3% of your portfolio on a single trade. You can be wrong ten times in a row at 1% and find you've only lost a total of 10% of your portfolio's value. If you used 10% of your investable assets and were wrong those same tem times, you're done, it's all gone!

Investing is not unlike a lot of other things in life, you need to control what you can control. Remember you cannot control the outcome of a trade, but you can control your entry, stop, and position-size. For most investors, the disciplined use of "trailing-stops" will make sure you never give back 100% of your gains or ride your position all the way down to zero.

Briefly, for those of you that aren't familiar with a "trailing-stop," it is a defined percentage away from a securities current market price and it goes up as your security rises. As the trail-stop rises, it will never go back down, it stays the fixed percentage below the highest level attained by your security even if your position trends sideways or starts to lose value. There are many ways to use trailing-stops and if you can even adjust them to account for dividend distributions.

You're Suspended!

This past month I had a couple of questions regarding Social Security, in particular the ability to file and suspend benefits in order to trigger spousal benefits for the lower earning spouse.

One such questioner wanted to know why he couldn't also file based on his spouses' earnings record, even though his was the higher of the two, effectively having both spouses in a "suspended" filing state and collecting on the others benefits.

The answer is the higher earner can't do that. In this case "he" can either file and suspend in order to allow his benefits to grow until they are worth more later (about 8% per year more), or file a "restricted claim" for benefits only, but not for both.

For example, the higher-earning spouse could file a restricted application for only spousal benefits at 66, allowing his or her own benefit to continue to build delayed retirement benefits until age 70. Meanwhile, the lower earning spouse could file for benefits under his or her own earnings history, making spousal benefits available for the higher earning spouse.

Once you reach Normal Retirement Age, you have the option to restrict your application to exclude certain benefits. If a benefit is excluded, it will continue to build delayed retirement credits.

For the file and suspend option to work, the higher-earning spouse would file for benefits at age 66, then immediately suspend the benefit, allowing his benefit to continue to build delayed retirement benefits until age 70. In the process, he will have made his spouse eligible for spousal benefits under his earnings record.

Once you file for your own benefits, your spouse becomes eligible for spousal benefits under your earnings history and then suspending your benefit allows you to continue building delayed retirement credits.

The Social Security Administration on their website (http://www.ssa.gov/) makes it clear that: "Only one member of a couple can apply for retirement benefits and have payments suspended so his or her current spouse can collect benefits. If both you and your current spouse are full retirement age, only one of you can choose to receive spouse's benefits now and delay receiving your own retirement benefits until a later date."

Calculating when and how you should file for Social Security benefits can be complicated and confusing. If you or someone you know would like help in this process, I would be happy to lend additional assistance.

Davis Investment Group

Davis Investment Group is a fee-based Registered Investment Advisor firm servicing the needs of clients across the United States. Davis Investment Group custodies all client assets at Charles Schwab & Co. Davis Investment Group's home office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

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