DAVIS INVESTMENT GROUP

Registered Investment Advisor Firm

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STOCK MARKET MYTHS

With a strong stock market upon us, I thought I would review a couple of stock market myths so you can be on guard against falling prey to them. The stock market is over 225 years old and investing in stocks (or mutual funds) continues to be risky. Investors continue to seek shortcuts to market success. What follows are six of what I feel are the most persistent myths about investing in the stock market.

Low-priced stock doubles in price more easily- Sounds right. A $2 stock should grow to $4 easier than a $50 stock grows to $100. A stock price is $2 or less for a reason – the company is very risky or simply not very valuable. Also, lower priced stocks aren't listed on stock exchanges, making reliable information harder to find.

Past performance is a good predictor of future performance – You don't have to look hard to find a mutual fund or stock that performed well two years ago, only to fall off miserably last year. That's not to say that an investment that has performed well in the past won't continue to do so. Any investment is influenced by changing conditions. Good performance in the past may be a good place to start, but sound fundamentals and careful research are still the best tools to help look for a good stock.

What goes down must go back up – Based on that myth, a stock trading at or near its 52 week low would present a great profit opportunity; however, this is often not the case. There is usually a good reason why a stock price is down. Unless research tells you that the cause for the company's troubles has been or is about to be resolved its best to look elsewhere. Some investors also believe that a reverse version of that law exists.

One of the most dependable strategies is value investing, which involves buying high–quality companies that are undervalued. Buying companies solely because their market price has fallen might seem like the same thing, but the difference is that a value investor only invests if research indicates that the company's price is lower than it should be, instead of just as low as it deserves to be.

Paper losses don't matter – When a stock's price falls below what you paid for it, it's easy to think that paper losses don't matter. Since you haven't sold the stock you haven't lost anything. That's not true. When the price of a stock you own falls, you have lost purchasing power. If a stock falls 20 percent, you have 20 percent less to spend or invest elsewhere.

This is not to suggest that you should sell a stock whenever its price falls. What it does mean is that you should never hold a stock solely because you are waiting for it to rise to break-even. Use the opportunity to review the reasons for buying it. Analysis should help you decide if you should hold or sell, or buy some more.

You need to buy hot investments – "Follow the herd" mentality is one of the biggest mistakes by investors. By the time you hear about a red-hot company, its best investing days are usually past.

Beating the market is easy when you know how – Chances are you've received more than one direct mail promotion from someone who will tell you how to beat the market if you subscribe to their newsletter. The language in these promotions can be skillful and persuasive, and many people buy it. Try to remind yourself that if someone had a secret formula for beating the market, they wouldn't be earning their living selling newsletters. They would keep their secret and enact their retirement plan.

Most of these myths are based on apparently compelling logic and present what appear to be shortcuts that will allow you to profit without putting in work or assuming a lot of risk. In the end, there is no substitute for solid research and making fundamentally sound investments – and even that is no guarantee of success. Contact Bob Davis at DIG for more information.

FED Watch

July meeting: no action, no surprise and no guidance changes. There is less than 10% chance of a raise before the December meeting.

Next meeting: September 19th and 20th.

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.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at:

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