



Buy Low and Sell High

by Cullen Douglass, CFP®

Buy low and sell high. Since I got in the business, I have heard the phrase "buy low and sell high". I've asked both advisors and investors what this means to them. The idea is to buy investments when the price is low and sell them when the price is high. Practically, this makes total sense. The value is the growth. If you can properly time these two transactions, the sky is the limit. This philosophy counters the idea of buy and hold.

The philosophy is different if you're buying mutual funds versus investing in individual stocks. In a diversified portfolio using indexes or funds, the trend cycles tend to be more cyclical and less about stock management, ~~price to earnings~~ but can still be valuable in practice. The problem occurs in deciding when to sell. No one has a crystal ball and advisors disagree on what indicators determine when to sell. What if you sell the stock and it continues to grow? Also, what are the tax ramifications?

Another issue with this strategy is what to do in distribution or retirement. What do you do when you need money? What if the stock has bottomed out and you need cash for retirement? Doesn't this go against buy low, sell high? What are the effects of selling depressed stocks or funds when you need retirement income? A different idea than guessing about when the market is going to go up or down is to build an integrated portfolio with non-correlating assets.

Think about a see-saw. When one side goes up, the other side goes down. That's how non-correlating assets work together. Doing this correctly means it's less likely that you'll guess wrong about a particular asset because you will own multiple assets.

We tend to always plan for the stock market to go up and for the positives of market growth. But believe me, down markets matter. Find an advisor who can help you strategically build a portfolio of non-correlating assets designed to meet your retirement goals.

No investment strategy can guarantee a profit or protect against loss. All investments carry some level of risk including the potential loss of principal invested.

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