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To Educate, Amuse & Enrich

Fool's School

Market Timing Is Silly

If you pay attention to the financial media, you'll see many experts predicting what the market will do in the near future and urging us to buy or sell "now." Unfortunately, they're often wrong. No one can consistently and accurately know what the market will do in the short term. In the long term, though, the trend is clear: The market rises.

In a famous study, University of Michigan finance professor H. Nejat Seyhun found that an investment held in the stock market from 1963 through 1993 (7,802 business days) would have yielded an average annual return of 11.83 percent. But get this: He found that if you were out of the market (i.e., not invested in it) for the 10 days when the market rose the most, your average annual return would be only 10.17 percent. If you sat out the 90 best days, you'd be down to a mere 3.28 percent.

Much of the market's gains can occur on just a few days. So anyone who tries to time the market risks missing out on

substantial profits. Some will argue that by being out of the market on the worst days, you'll improve your returns — but no one can correctly predict when those worst days will occur, either.

Another problem with market timing is that it can be expensive. It often means that you're getting in and out of various stocks rather frequently, leaving you with short-term capital gains (if you're lucky to have avoided losses) that are usually taxed at a higher rate than long-term gains. Frequent trading can generate a lot of commission costs, too.

Over the long run, it's usually more hazardous to your wealth to be out of the stock market than to be in it. By hanging on, you'll be in the market on days when it counts, able to ride out occasional downturns. A great strategy is to regularly invest in the market, no matter whether it's up or down, perhaps through an index fund. Learn more at www.fool.com/investing/general/2008/09/03/are-you-afraid-of-the-september-curse.aspx and www.indexfunds.com. ■

My Dumbest Investment Never Diversified

My father gave me \$200 worth of shares of stock some 20 years ago. I reinvested the dividends in additional shares of stock. The stock took a big dive six years ago and has recovered only a little. My shares are worth \$9,000. Still, I haven't diversified. Why? Because my father gave me the shares? Because I'm afraid I'll fail? Because I'm too busy? I believe I don't know enough about investing and don't have time to keep up with it. This is my dumbest investment.

— J.L.T., Moore, Okla.

The Fool Responds: May all our dumbest investments be this profitable. You may not realize it, but you earned roughly a 21 percent average annual return, which is terrific and hard to beat. You're right that it would have been smart to diversify, as the shares may well have really tanked on you. If you don't have time, a simple way to diversify is to just buy into a broad-market index fund, such as Vanguard's S&P 500 Index fund. If you have a little time and interest, you can learn a lot about investing at www.Fool.com. ■



Do you have an embarrassing lesson learned the hard way? Boil it down to 100 words (or less) and send it to The Motley Fool c/o My Dumbest Investment. Got one that worked? Submit to My Smartest Investment. If we print yours, you'll win a Fool's cap!

Last week's trivia answer

Born in 1897 and headquartered in Michigan, I'm a diversified chemical company with annual revenue of \$54 billion and 46,000 employees around the world. You'll find me busy in water, shoes, food, pharmaceuticals, paints, packaging and personal care products, among other areas. My early offerings included bleach, and I introduced Saran Wrap in 1957 and a one-shot measles vaccine in 1965. I was testing Ziploc bags in the 1970s, and in the mid-1980s I introduced super-absorbent DRYTECH polymers, used in disposable diapers. I also make Styrofoam and Great Stuff foam sealant. Look for my red diamond. Who am I? ■

(Answer: Dow Chemical)



Write to Us! Send questions for Ask the Fool, Dumbest (or Smartest) Investments (up to 100 words), and your Trivia entries to Fool@fool.com or via regular mail c/o this newspaper, attn: The Motley Fool. Sorry, we can't provide individual financial advice.

What Is This Thing Called The Motley Fool?

Remember Shakespeare? Remember "As You Like It"? In Elizabethan days, Fools were the only people who could get away with telling the truth to the King or Queen. The Motley Fool tells the truth about investing, and hopes you'll laugh all the way to the bank.

Ask the Fool

Making a Market

Q What's a "market maker"? — T.F., Lake City, Fla.

A We tend to imagine that when we buy stock we're getting those shares directly from a shareholder who's selling, but that isn't quite the case. Stocks are generally bought and sold through market makers. They maintain a fluid market and earn their keep by pocketing some or all of the spread between the purchase and sale price. They'll typically keep some shares in inventory, too. That way, if someone wants to buy shares and no one wants to sell at that time, they can sell from inventory.

Q On my tax return, can I deduct brokerage trading commissions from my net capital gain? — A.B., Atlantic City, N.J.

A Yes, you can — and you should. The costs of buying or selling a capital asset (stock, in this example) are capital costs, and they need to be factored in to your cost basis and proceeds.

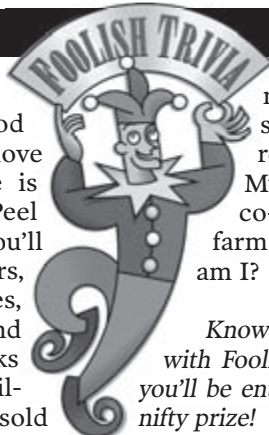
Imagine buying \$3,000 of stock and paying a \$30 commission. Your actual cost is \$3,030. You sell the stock later, when it's worth \$4,000, paying another \$30 to the brokerage. Your "net" sales proceeds (generally, the amount reported to you by your broker at year-end on your Form 1099B) would be \$3,970 (\$4,000 less \$30). On your tax return, you would report a gain of \$940 (\$3,970 less \$3,030 equals \$940). By ignoring the cost of commissions, your gain would be \$1,000, and your taxes higher.

This exercise can help you focus on how much you're paying in commissions. For many investors, it's too much. Many reputable brokerages charge just \$10 or less per trade. For tips on finding a good brokerage, visit www.broker.fool.com and www.sec.gov/answers/openaccount.htm. ■

Got a question for the Fool? Send it in — see Write to Us.

Name That Company

Incorporated in 1977, I've been through tough times and good times. Customers tend to fall in love with my products. At my core is innovation and good design. Peel off my plastic outer layers and you'll find portable digital music players, downloadable music, cell phones, personal computers, laptops and more. My operating system marks the spot. "i" have sold tens of millions of my key products. I've sold



more than 5 billion songs online. My annual revenues top \$24 billion. My name stems from my co-founder's time on a farm in the Northwest. Who am I? ■

Know the answer? Send it to us with Foolish Trivia on the top and you'll be entered into a drawing for a nifty prize!

The Motley Fool Take

Letter From The Fool

The recent state of the stock market can be disconcerting. If you're tempted to act rashly, remember: This, too, shall pass.

There are still plenty of sound, well-run businesses that will reward calmness and patience. Better still, many of them are now selling at a discount to their fair value.

The markets will likely remain volatile for a while. The response from Wall Street and the financial press will range from euphoric to despondent, and much advice given will be emotional and short-term in focus. There are real risks in the market today. More companies are sure to struggle.

But don't panic. If we retain our wits,

we'll make better decisions than most investors. Here at The Motley Fool, we tend to avoid companies with significant debt in favor of companies with cash-rich balance sheets. Although the crisis in the financial sector is dragging down the market, there are bargains to be found.

After nearly every sudden drop the market has experienced, it recovered within a few years. Six months after the 1995 Oklahoma City bombing, the S&P 500 had gained 17 percent, and six months after the lows of Sept. 11, 2001, it was up nearly 19 percent.

We're paying close attention to the market, and we encourage you to come to Fool.com and to our discussion boards for regular commentary. ■

Great Move In Specials!

Central Fort Myers

Elmwood Street
3/1 Home, Tile Throughout \$650/mo.
Jeffcott Street
2/1 Home, Wood Floors \$650/mo.

South Fort Myers

Summergate - Gateway
2/2 Condo, Designer Tile \$650/mo.
Calusa Palms Drive
2/2/1 Condo, Den/Jacuzzi \$925/mo.

Cape Coral

SE 6th Court
3/2/1 Duplex, Tile/Fenced Yard \$795/mo.
NE 18th Place
3/2/2 Home, Fenced Yard \$825/mo.
SE 20th Court
3/2/2 Home, Pool/Water Front \$975/mo.
SE 35th Terrace
3/2/2 all Tile, Lawn Service Included. \$875/mo.



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