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FINANCIAL MANAGEMENT



Don't Follow The Herd!...

Please allow me to help you understand today's investing environment so you can break the cycle all of us so often make: making the wrong investment decisions at the wrong time.

For example, what are you currently doing with the money in your 401(k) or other investing account? Is it sitting in cash, or have you invested in bonds thinking they are safer than stocks?

If you are like many you have moved out of stocks and into bonds because you are still feeling the effects of 2008's horrible decline and have decided you're "not gonna take it anymore!" Plus you have read that bonds have appreciated nicely over the past year and are safer. All seemingly good reasons for your actions and you're not alone.

Investors have pulled out over \$33 billion from equity mutual funds this year and have placed much of that money into bond funds. As often happens, I fear investors are repeating past mistakes and finding comfort in following the crowd.

Do you remember the Doc.com crowd in 2000, the real estate crowd in 2005 and perhaps you are now a part of the bond fund crowd in 2010.

[Are Bonds Really Safer, Today?](#)

I am not making a recommendation but want you to consider the following example:

Johnson and Johnson (JNJ) has an AAA credit-rating, the highest possible for any company. JNJ is offering bonds that mature in 10 years and yield 2.95%.

JNJ stock, on the other hand, currently has a dividend yield of 3.75% and sells below \$60. Warren Buffett recently invested \$1 billion in JNJ at about \$58 per share. Projections suggest JNJ shares could be worth \$70 to \$105 in a few years.

Now, typically, dividend yields on high quality companies are always lower than bond yields. However, interest rates are currently so low that bond yields, even on AAA-rated companies like JNJ, are well below dividend yields – unheard of over the past 40 years.

JNJ is a solid company. Does it matter if the stock drops to \$50? Would you sell it at that price or pick up some more?

My point is, if you focus on intrinsic value, you will see market declines as your ally, not your enemy.

Here's another example. I own a rental property that nets me a clean profit of \$10,000 per year after all expenses. If an identical property comes up for sale next door, how much should I buy it for - \$50,000, \$100,000 or \$500,000?

If I pay \$50,000, assuming the same \$10,000 net rental income, my return is 20%. At \$100,000, I make 10% and at \$500,000 I make 5%.

Clearly, the lower price is better, not the higher price.

So always buy low and sell high.

Do not buy high to sell higher. Do not buy high to sell lower!

In times like this, do not shy away from market volatility – instead, use it as an opportunity to buy value at discounted prices, and gain wealth. Your investing attitude should go from, “I’m terrified” to “Bring it on!”

Research your stocks well, and when you're sure, take a deep breath and jump in. Yes, the water is cold and the surface is choppy, but the treasure lies in the water, not on the shore.