

Picking the right stock is more important than time

Would you care to venture a guess as to when the stock market will start its next major move down? I'm fully invested at the present time and have done very well, but I want to protect my gains and not see them melt away when the stock market starts going down — as it always does.



today's investor

Thomas E. O'Hara

of the National Association of Investors Corp.

I would not care to venture a guess as to when the stock market will make a major decline.

Furthermore, I would add that I really don't care when it goes down. As you have said in your question — the stock market always goes down.

But you seem to have forgotten the most important part — that after the stock market goes down, it always goes up. Even more important, the stock market always goes up a lot more than it goes down.

The last major drop in stock market prices that most of us saw was in the 1970s. That drop in the market was 45 percent. That's a substantial and a scary drop.

HOWEVER, WHEN the stock market recovered, it set a record on the upside as it always does. The advance to 2400 was 128 percent from the previous high. It was up well over 300 percent, if you measure from the low to the high.

A check of major stock market cycles, which occur two or three times in the average lifetime, will show you that the same thing always happens. The down move is always

substantially outpaced by the subsequent up move.

A great many people try to get out at the top of the market and hold their cash until it hits bottom. That's when they want to get back in. The reason makes the height of good sense. The logic is irrefutable.

The only problem is that practically no one is able to do it successfully.

A study made by two professors at Calgary University and paid for by Salomon Brothers shows that over the past 50 years, the investor who bought good stocks and held them through up and down markets did better than the investor who tried to move in and out of stocks and in and out of favored industries.

THE PROFESSORS found that, just to break even after paying commissions and taxes, the investor who tried to catch all the changes had to be right 70 percent of the time. Very few of us are good enough to be right more than 70 percent of the time.

The practice of being fully invested all of the time in good securities has been followed by investment

clubs. Records of their earnings only go back 25 years, but they substantiate the findings of the Calgary study.

The records seem to suggest that it is much more important to pick the stocks you invest in carefully than to try to get in and out of the market at its lows and highs.

You will have times when you look pretty bad, but at the end of the line, you are more likely to be at the top of the heap if you forget about market timing.

Thomas O'Hara of Bloomfield Hills welcomes your questions and comments but will answer them only through this column. Readers who send in questions on a general investment subject or on a corporation with broad investor interest and whose questions are used will receive a free one-year subscription to the investment magazine "Better Investing." For a sample copy of "Better Investing" or information about investment clubs, write Today's Investor, P.O. Box 220, Royal Oak, MI 48065.

Unemployment rate up slightly

Seasonal jobseekers entering the labor force caused October unemployment rates to climb marginally in most of Michigan's 12 major labor markets, according to seasonally unadjusted estimates prepared by the Michigan Employment Security Commission.

"Workers began entering the job market in search of holiday employment and simply outpaced the number of new jobs," MESC Deputy Director Thomas S. Malek said.

"As a result, unemployment rates increased in nine labor markets."

Three areas reported declines in their October jobless rates. Unemployment dropped in the Benton Harbor, Muskegon and Saginaw-Bay-Midland areas.

Among the three, Muskegon had the largest decline as its rate dropped by 0.3 of a point to 10.1 percent.

Jobless rates rose in the remaining nine areas, with Flint recording the largest October gain. Its rate rose to 12.5 percent from 9.8 percent in September.

The increase also gave Flint the highest unemployment rate among the major labor market areas. Malek attributed the Flint increase to a production adjustment layoff at a local automotive facility.

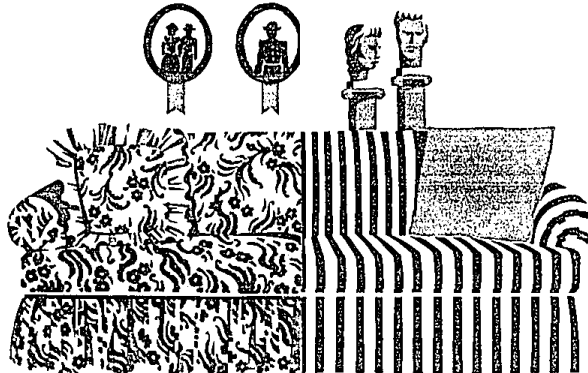
The Ann Arbor area had the lowest October unemployment rate at 5.1 percent. Malek noted, despite gains in unemployment, most areas also reported job growth in local retail trade and service sectors.

In addition, there were strong gains in government employment with the resumption of classes at state colleges and universities as well as at local schools and community colleges. Malek characterized most of the October unemployment rate movements as marginal since they changed by less than a percentage point.

The statewide unadjusted October unemployment rate rose by 0.2 points to 7.7 percent from September's 7.5 percent. The number of jobless climbed by 19,000 to 368,000.

Employment grew by 52,000 to 4,391,000 while the labor force climbed by 70,000 to 4,759,000. Both the labor force and employment levels reached record October highs during the month.

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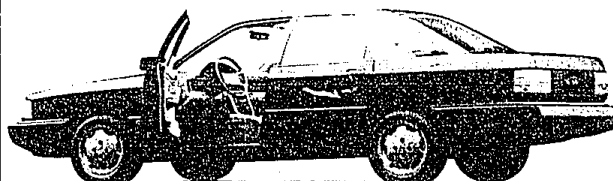
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