

# Investors must stay for long haul



SID MITTRA Ph. D.

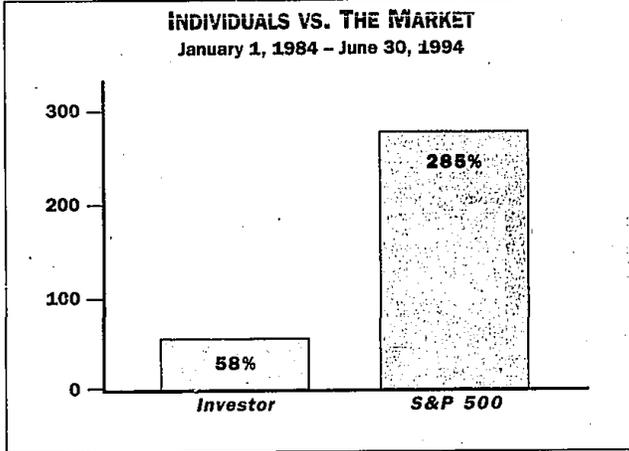
**MORE THAN MONEY**  
Millions of investors place their money with mutual funds specializing in large cap stocks. Large cap stocks are S&P 500-type stocks; hence large cap mutual funds may be expected to generate returns similar to those of Index Funds.

However, even investors in these funds fail to earn anything like the returns earned by the S&P 500 index. For instance, a recent study conducted by Dalbar Inc., a Boston-based fund-research service, found that during January 1984 through June 1994, S&P 500 index produced a total return of 285 percent. During the same period, a group of individual investors investing in large cap mutual funds earned only 58 percent (see accompanying figure).

The question, of course, is why did these investors fair so poorly and not reap the rewards of investing in an index fund? Before we answer this very difficult question, we should remind ourselves of the famous words of William Francis O'Connell, publisher of *Forbes* magazine: "For every difficult question," Shaw said, "there is at least one easy answer. Unfortunately, it is always wrong."

After analyzing 30 years' worth of investment performance data, economists published articles dealing with this issue and discussing this topic with various professionals, we believe we have found the answer. However, it should not be a surprise that because the question is difficult, the answer is both complex and somewhat unsettling.

At the heart of the issue is the investor's time horizon. Most investors recognize that, in the long run, stocks outperform bonds and money market instruments. However, quite surprisingly, most investors (including professed long-term investors) seem to ascribe to Keynes' famous maxim: "In the long run, we're all dead." Consequently, whether the overall



market is sliding or sizzling, the majority of investors behave as though they were short-term traders and invariably fail to stay the course.

Incidentally, since it is critical for investors to stay the course in order to realize satisfactory returns on their investment, it is important to explain what is implied by that term. Long-term investors make two basic assumptions about the market. First, fluctuations in the market are random in nature, which implies that it is not possible to predict what the market will do in the short-run by analyzing its past behavior. Second, major market advances have been recorded to take place over very short periods of time (generally within a few weeks), and even the legends like Peter Lynch and John Templeton cannot identify these periods in advance. If these two assumptions are correct, then the best course of action for long-term investors would appear to be to stay in the market for an extended period of time. That is, once an investor

enters the market, he or she should stay in the market for a minimum period of, say, five years. The selection of the minimum period is not arbitrary. History suggests that, as a general rule, during any five-year period, the market is likely to experience a series of both advances and declines. Consequently, for best results, an investor should stay the course by remaining invested in the market for a minimum of five years.

A plausible explanation for the seemingly irrational behavior on the part of rational investors lies in the way they perceive the inherent risk of the market. While returns of the stock market — and for that matter returns of mutual funds and individual securities — are splashed daily all over the place on a regular basis, there is hardly any mention of risk either in the popular media or in financial journals. The result is predictable: With little understanding of what constitutes market risk, investors run for cover at

the first sign of market fluctuations (both in up and down markets) and hence, as already stated, they fail to stay the course with devastating yet predictable consequences.

The above analysis leads us to the following unsettling conclusion: Most investors have very little understanding of market risk, and neither the media nor the financial advisors serving them appear to have much interest in explaining to investors what risk is and how it can be successfully managed. But until that happens, even those market players who know full well that "you have to be in it to win it" will continue to go in and out of the market like traders, and hence will come out as small gainers at best, and big losers at worst, in the market.

Sid Mittra, Ph.D., CFP, is professor of finance, Oakland University, Rochester, and owner, Mittra & Associates, a Troy financial consulting firm. You can e-mail questions or comments to Sid Mittra at smittra@oakline.com.

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# Businesses can make money on Web



EMORY DANIELS

One of the controversies about commercial sites on the World Wide Web is whether they can be money-making ventures or are best used for "institutional advertising."

But for Brad Wardell of Starlock Systems, Inc. in Canton it's not a controversy. Wardell began to make money from the Web the first day he launched and continues to draw in significant sums monthly.

Wardell, 24, is chief executive of Starlock which produces software — business applications and games — for OS/2 primarily but recently for Windows 95 as well.

About a year ago, Wardell launched his Web site at <http://Starlock.com> through O&E Online. The site, as one might expect, offers Internet users the chance to place an order for Starlock software products while online. The order is automatically faxed by O&E Online to Wardell's office.

"I am getting 1,000 visits a day in orders to use my site with O&E Online," said Wardell, who to illustrate walked by his fax machine and picked up an order that had just come in from

someone in Finland. "Surprisingly, to me, about half our orders from our Web site come from Europe."

Wardell started his business at age 20 while an electrical engineering student at Western Michigan University in Kalamazoo as a means of "making college and get a real job." Soon wife Deborah joined the company. Now he has nine employees in Canton and Virginia.

Starlock's Web site has received 350,743 visits since it went live on Aug. 1, 1995. O&E Online designed the original site, added the fax service, and talked with Wardell about how that could be used. Since then, Wardell has learned hypertext markup language (html) and has learned to produce home pages. He now launches his Web site from UUNET in Virginia for the home page and points to the other pages to O&E Online.

Wardell says there's no question that a business can make money on the Internet. "But you need to have a product to sell, and it helps if your product is one that people feel comfortable with mail order buying. So selling computer software, for instance, is easier to do on the Web."

"Personally, I would not order shoes or food through the Web. I want to try on my clothes first. But when ordering software, I don't need to hold the

box in my hands so it's easy to purchase online. Anybody who can send a mail order can do well on the Web."

Starlock does a lot of advertising in mainline computer magazines, such as PC World. "When we advertise, we include the Universal Resource Locator (URL) for our Web site in the advertisement," said Wardell. "That generates some traffic."

"We also are listed in all of the Internet search engines like Yahoo and Infoseek. And our site address finds its way into computer discussions in Usenet. So we promote it in a number of ways but I'm still not sure why our site gets as heavy use as it does."

There are two important goals for any business on the Internet, stressed Wardell, and that is to generate traffic and to produce return traffic. "In comparison to other methods, a Web site is so cheap that it costs us practically nothing to initiate and to continue. And that's great for something that is generated directly and is \$50,000 to \$70,000 monthly in sales."

Starlock just finished its 1995 fiscal year and so the numbers were fresh in Wardell's mind when I talked with him. "We got about 15 percent of our total business directly from the Web and probably 20 percent when you add in the indirect sales. That's pretty good, considering we've been online for less than a

year." The annual cost of the Web site is about \$800, said Wardell, compared to \$55,000 for one full-page full-color advertisement in PC World. Starlock spends about \$200,000 a year advertising in magazines. "We got a total of 612 responses from the magazine ad and we get 1,000 responses a day from the Web."

"For discussion only, if a bad recession hit and my business took a dive and I had to layoff all my employees, I could stay in business with the volume of the Web site alone."

Among Starlock's staff of nine is Kurt Westerfeld, project manager of Object Desktop who heads the company's business unit, and Alexander Antonides, former assistant editor of OS/2 Magazine who recently came aboard to head Starlock's marketing efforts.

Founded in 1992 as a custom solutions provider, Starlock entered the OS/2 market in 1993 with a game called "Galactic Civilizations" which now represents 14 percent of the OS/2 market and has a game of the year title as part of its credits. Other major software products are "OS/2 Essentials" and "Object Desktop."

Emory Daniels may be contacted via E-mail at [emoryd@oakline.com](mailto:emoryd@oakline.com). Past columns are archived at <http://oakline.com/emorydarchive.html>.

## BUSINESS MILESTONES

This column highlights promotions, transfers, hirings and other key personnel moves within the Oakland County business community. Send a brief biographical summary — including the towns of residency and employment and a photo, if desired, to: Business Milestones, c/o Business Editor, *Journal & Enterprise News*, 805 E. Maple, Birmingham, MI 48009. Our fax number is (810) 644-1314.

new senior vice president/group account directors: Jack Oliver of Bloomfield Hills, corporate business and training; and Shirley Williams of Commerce Township, Dodge Brand. Oliver returns to Ross Roy after being senior vice president/director of integrated marketing at Pentacom, a slater firm with Ross Roy in the Omnium Group. Williams most recently was vice president on the Ford account at Sandy Corp., Troy.

Janet Fiesland of Hunting-

ton Woods has joined D'Arcy Masius Benton & Bowles/Bloomfield Hills as a graphic designer/typography specialist for the Bloomfield Graphics Studio.

Mike Murri of Rochester Hills was named local sales manager at WKXZ-TV/Channel 7. He has been an account executive with the station for 14 years. Jeff Murri of Shelby Township was named regional account executive at the Southfield-based station. He comes to Channel 7 from Southfield-based

WJBK-TV. Stacy Penkalis of Berkley, assistant director of admissions at Oakland University in Rochester Hills, was elected to the executive board of the Michigan Association for College Admissions Counseling. She will serve a three-year term as treasurer. She previously served on the public relations and conference planning committees and chaired the college showcase committee. She joined the OU admissions staff in 1988.