Investment pro, O&E columnist offers his own brand of advice

Mittra

This investment guide was prepared by Dr. Sid Mittra, a partner in the Rochester investment management firm of Mittra, Finnigan & Associates and weekly finance columnist for the Observer & Eccentric Newspapers.

Mittra, in collaboration with his academic colleagues, developed the Dynamic One model, which is proprietary and copyrighted, based on his years of experience as a certified financial planner, professor of finance and author of numerous financial textbooks and articles.

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Nuts and bolts

Asset allocation gets best of market

The fascination of the American investor with stocks is fully justified. Numerous studies have shown that, in the long run, stocks handsomely beat bonds and money market instruments.

For instance, during 1960-1997, large cap stocks increased 65-fold, whereas long bonds and money market instruments increased by, respectively, 15-fold and 9-fold. (Figure 1)

The superiority of stocks over bonds and money market instruments is also confirmed by the results of market advances during 1975-1997 (23 years), which represents a more modern investment era. As measured by S&P 500 index, 20 of the 23 years have been up years.

Data reveal three additional facts: During 14 of these 23 years, S&P 500 returns have exceeded 15 percent. Declines in the index have ranged between 3-5 percent. And, many advances have been as high as 30-37 percent.

So, we can say with confidence that stocks are the undisputed king of the investment world.

The Vexing Puzzle

While the stock market boasts a spectacular performance over the long run, millions of investors in stocks do not do so well. A study published by Dalbar, Inc. indicated that during January 1984-June 1994, the S&P 500 index produced a total return of 285 percent, whereas individuals investing in large cap mutual funds earned only 58 percent. How come?

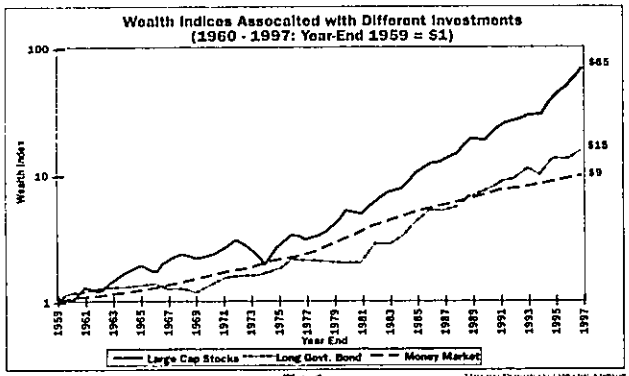

Fig. 1

HELEN FURCEAN / STAFF ARTIST

Most Americans insist that they are investing for the long haul. These people come from all walks of life and represent all age brackets. However, surprisingly, these people with long-term investment horizon have something in common with their short-term counterparts. Studies indicate that, notwithstanding their varied orientation, actions of most long-term investors are highly influenced by short-term market fluctuations.

Almost always, the end results are disappointing – and often devastating. Influenced by short-term market volatility (Figure 2), investors wind up

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