AGAINST BUY AND HOLD

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Peter Lynch wrote that if the market drops 10%, put money into it. If it drops 20%, put a lot of money into it (maybe all but an emergency fund).

Despite everyone shouting “*Buy and hold*!” I use a system roughly analogous to dollar cost averaging. The higher the stock market goes, the more I take out; the lower it goes, the more I put in. Very rough and ready. But here’s an example:

Aug. 2007: I got nervous, so I took out one third of my nest egg.

9 Oct. 2007: peak of the bull market; getting out the previous August was too soon.

13 Sept. 2008: the market crashed, so I put the one third back in.

9 Mar. 2009: trough of the bear market; getting back in the previous September too soon.

But who cares about timing the market exactly? Nobody can pick exact peaks and troughs. (Except God. I suppose that’s why people speak of being “richer than God.”)

Another example:

I stayed 100% in the market from late 2008 till Feb. 2016. Then, as I saw Trump gain momentum, I got scared and got completely out of the market. Thus I lost huge amounts as the market climbed from 2016 to 2020. So when did I go back in? 23 Mar. 2020, after the Dow fell about 1200 points in 1 day. And guess what?! 23 Mar. 2020 was the exact trough. Sometimes you get lucky. Now my assets have broken a million. (Or should I say, “my first million”?)

My system is very rough and ready. But hopefully I shave off some of the losses that buy-and-holders experience.