Investing Answers

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The One Thing You Shouldn't Do When Rebuilding Your Portfolio

By *Laura Mohammad*
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Don't make the mistake that has lured many investors down the wrong path again and again.

If you pulled your money out of the stock market in a panic when the economy most recently took a hit, you weren't alone. And as you now know, it was a big mistake.

You have fallen victim to the panic-culture that is Wall Street.

Fear and greed are the primary drivers of wealth accumulation and wealth destruction, says Los Angeles-based investment adviser Ivan Illan. We take our money out in the bear markets and invest in bull markets. We watch the market rise with increasing angst, not sure when to jump back in. We wait for the double-dip recession, and it doesn't happen. Meanwhile, our wealth languishes in CDs, or worse, savings accounts.

#-ad_banner-#But it is never too late to recover. With a solid re-entry strategy to the stock market and a tight hold on your emotions, you can get back in and maximize your investment. And the best thing you can do for your portfolio is actually the easiest thing you can do. Oh, and by the way, it involves NOT doing something.

First, you'll need to ask yourself some questions:

- Do you toss and turn the night after the markets drop?
- Are you checking your stocks' positions multiple times a day?
- Is CNBC your channel of choice?
- Are Larry Kudlow and Jim Cramer your favorite rock stars?

If your answers are yes, then it's time to act. Here is what you do:

Put down the remote.

That's right. Don't watch the investment shows. Watching these shows and obsessing over the ebbs and flows of the market is the one thing that you absolutely should not do when you're getting your portfolio back on track.

Still, most of us do it. Revenues for business television go up significantly during times of market volatility, says Illan. But stay away: Newspapers will give you a better sense of the market place, he says. Or better yet, go to a movie or read a book.

Let's say you like to track the Standard & Poor's 500 index. The index dived to just above 600 in early 2009, to hover at more than double that today, with many peaks and bumps in between.

Lesson learned? If you track these figures throughout the day, week or even month, you'll make yourself crazy.

But there's an answer.

With a checks-and-balance plan -- it can be with an investment adviser, your spouse, even a close friend -- you can establish realistic goals that suit your financial fortitude. Here's how it works: You identify your risk tolerance, agree to be held accountable by your checks-and-balance partner, then you follow through in rebuilding your portfolio.

Be warned, says Illan: If you used an investment adviser during the last go-around, lose him or her, because either the trust wasn't there or you got bad advice. Either way, it's time for you to move on to a new plan and a new sounding board -- ideally a professional, who can articulate your plan, he says.

Another technique from Illan: Divide the amount of money you want to put in your new strategy into between six and 12 segments. Then, each month, put one of those segments into action. Say you want to build your portfolio by $12,000 in one year. That means that each month you will dedicate an additional $1,000 to the markets.

By committing more money into your new strategy each month, your comfort level for the market increases, and you become resistant to the daily turbulence. Your purchases -- both high and low -- are spread out over several months, thereby dulling the pain. A well-diversified portfolio is key.

But does the fact remain that you thrive on the pick of the week? To indulge yourself, set aside "play money" that you can invest without seriously impacting your portfolio. But don't indulge until your portfolio is securely in place, with it matching your risk tolerance and with you checking in with your sounding board.

The Investing Answer: Once you have a strategy, stick with it. Don't be swayed by the talking (or screaming) heads on television. If you pull out of your strategy, you need to know precisely when and under what conditions you will get back in. Remember, says Illan, 99.9% of investors don't have a re-entry strategy, and they suffer for it. And the best investors -- think Warren Buffett -- don't try to time the market.

Disclosure: Ivan Illan is a former client of Laura Mohammad.

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