Written by John D. Buerger, CFP�
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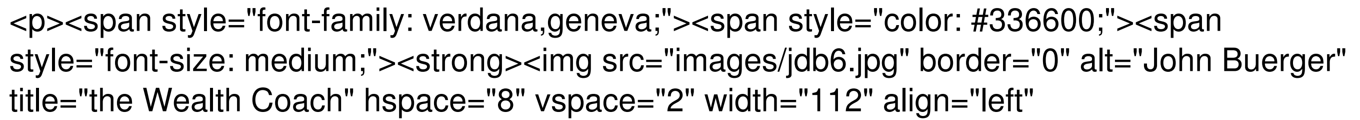

<p><img src="images/jdb6.jpg" border="0" alt="John Buerger"
title="the Wealth Coach" hspace="8" vspace="2" width="112" align="left"
/></p> <p>Did you ever tell somebody that Santa Claus
doesn't exist?</p> <p>I mean, it is the truth and all and we all find out about it in some way, but
were you ever the one to deliver the news straight out?</p> <p>That is the role I get to play
today - but this reality check isn't about Santa Claus.� It is about something that makes people
feel almost as good, though.� This myth revolves around your money and the kinds of returns
you can expect out of many years invested in the stock market.</p> <p>I call it the 10% Myth
and it goes something like this:</p> <p style="text-align: center;">The Stock Market has,
on average, made about 10% returns.</p> <p style="text-align: left;">Although
promoters of this myth never say it (that would be illegal - past results are no indication of future
performance), the message most people hear is:</p> <p style="text-align: center;">Invest
in stocks today, and YOU can make 10% returns, too!</p> <p>This is usually followed
up with wet-noodle scolding by the stock broker if you happen to own bonds, CD's or
(God-forbid) annuities.� Why would you want to get a measly 4-5% return, when you can have
10%. You'll double your money faster with stocks (7 years as opposed to 15).� You'll be rolling
in the dough.� You can retire early!!!� Just take a little risk!</p> <p>Can you feel the
dopamine rush starting to cascade from your brain as you anticipate finally getting out of the rat
race and living the high life?� It feels really good!� And all you need to make it happen is some
stocks and a long enough time-table to mitigate the risk (another myth for a later day).</p>
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</h3> <p>(At least, not on Wall
Street)</p> <p>It would be great ... but it simply is not true, at least not
consistently.</p> <p>Sure, there have been 10-year (and even a few 20-year) periods where
the stock market has done better than 10%.� We went back (to 1896) and looked at
all the data on the Dow 30
Industrials and found out that the market did better than 10% returns (before inflation) about
22% of the time.� When you look at 20-year periods, a long term 10% return happened only
10% of the time.</p> <p>So maybe there is a Santa Claus, but he only shows up on one out of
every 10 Christmas Eves.</p> <p>There are probably some stock brokers who are
devout Santa peddlers who will point out that this data does not include dividends and true, it
does not.� This data also does not include inflation which counters the dividend effect.� But
even if you include a generous dividend effect of 3% and still ignore inflation, the 10% story is
only true one third of the time.</p> <h3><span style="font-family:
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</h3> <p>So if the equities markets are NOT generating 10% rates of return, what is
the truth?</p> <p>The real number (before inflation) is pretty close to 7% ... and that is over the
history of the stock market.� We crunched the data for the Dow Jones 30 since 1896 and the

S&P 500 since 1928.� It didn't really matter which index we used or even when we started or stopped.� Once you get out to 40-50 years (longer than you or I will be investing), the average rate of return is the equivalent to buying a CD with a 7% interest payment ...</p> <p>... but with a boatload more risk.</p> <h3><str ong>< strong><stro ng><s trong> <stron g><str ong>< strong><stro ng><s trong>Tough Choices
</stron g></stron g></stron g></stron g></stron g></stron g></stron g></stron g></stron g></stron g></stron g></stron g> </h3> <p>I am telling you this for one reason and one reason only - I want you to know the truth.</p> <p>When you can get your head around 7% (not 10%) as being a reasonably accurate estimate of how quickly your money can grow (and THAT is still by taking on a whole lot of risk), it might change how you view each of your options for getting a return on your investments.</p> <p>Knowing that equities earn, on average 7% (including dividends but before inflation), you might make smarter choices with your money.</p> <p>Millions of Americans were heavily invested in equities within 5-10 years of retirement.� When their portfolios blew up in 2008 they were faced with a new choice: "Keep working 5-10 more years longer than I planned" or "Enjoy a severely diminished lifestyle for the rest of my life."</p> <p>They were faced with that choice because they were NOT aware of the risks they were taking with their investments.� All they could see were those 10% returns they wanted to get.� It didn't help that the previous 10 and 20 year cycles HAD seen 10% returns.� That just made them more willing to believe the myth and plan their finances accordingly.</p> <h3><str

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</h3> <p>I present issues (problems, threats, etc.) like this because you need to be aware that they are out there.� Going through life blissfully ignorant of risk is a recipe for disaster.� You don't walk out into a snow storm without a jacket, boots and gloves.� Don't walk into a hostile investment environment unprepared, either.</p> <p>What are the preparations you should make?</p> <p>(a) Build Wealth Through Cash Flow - Striving for 10% returns comes with a tremendous amount of downside risk.� Aim lower.� Shoot for inflation plus 4 or inflation plus 5 and you're far more likely to hit it.� That will likely mean that you will need to save more and spend less.� That's not such a bad idea, anyway.� You can build a lot more wealth more quickly through cash flow management than you can through any investment strategy.� Ask me about our Cash Flow Hydrant� cash management tool.</p> <p>(b) Diversify across broad asset classes - A portfolio of 500 US stocks is well diversified (you own 500 different companies), but it is not diversified across asset classes.� Buy stocks, bonds and commodities.� Spread your investments as much as you can across the globe.� Buy local, international and even developing markets.� A globally diversified portfolio started in early 2008 is actually up 10-15% from where it started.� The S&P 500 is down 10%.� Real estate is down 35%.</p> <p>(c) Don't be afraid of other types of investment vehicles - There is a place in your life for insurance products like annuities and cash value life insurance when they are structured properly.� Mind you, insurance products are "sold" and agents are paid commissions.� Be careful.� Most of the time, the product is constructed in such a way to benefit the agent more than the client.� That doesn't make the product bad ... it just means you may be buying a lot of stuff you don't need.</p> <p>(d) Learn about more advanced strategies - IF you already

understand and have implemented a globally diversified portfolio using low cost index ETF's and mutual funds (most portfolios I review for new clients are not even advanced to this level), then you can start learning about options and futures strategies to improve returns while eliminating risk.</p> <h3>No More Santa Peddlers
</h3> <p>The 10% Myth was originally promoted by the big stock brokerage firms.� If your stock broker, money manager or "financial advisor" promotes the 10% Myth ... it's time for a new relationship with a different advisor.� You might start with a fiduciary advisor who holds themselves to the ethical responsibility to do what is YOUR best interests first.� You also might want to work with someone who understands strategies that are a little more sophisticated than "buy stocks for the long haul."</p> <p>My last suggestion is usually my first suggestion:</p> <p>STAY AWAY FROM FINANCIAL PORNOGRAPHY</p> <p>The financial media are all peddling something - advertisements.� Those ads are being paid for by the big stock brokerage firms.� Every time you see Jim Cramer pound the table telling you to "Buy, Buy, Buy" he is only doing what he can to get you to generate a financial product transaction.� It is that transaction that puts profits into the brokerage companies which, in turn, pays for the advertising which, in turn, pays Jim Cramer's salary.</p> <p>He has no fiduciary duty to you.</p> <p>The financial pornography business is all about titillation - They want you to feel that dopamine rush in anticipation of huge gains you hope to get (because they show you how everybody else is getting them - even when they're not).� What you see on CNBC and MSNBC and Bloomberg

News is theater ... designed to excite you and get you to think emotionally about your investments.� But emotions are the reason most investors under perform the market by 6-7% (Dalbar studies).</p> <p>The next time you see Jim Cramer pound the desk and yell, "Buy, Buy, Buy!" turn off the TV and tell him, "Bye, Bye, Bye!"</p> <p>Then go watch a movie like "Miracle on 42nd Street."� It's still a myth, but it is a lot less dangerous to your financial future.</p> <p><a href="http://www.facebook.com/share.php?u=<url>" target="_blank" onclick="return fbs_click()">Share This Article on Facebook </p> <div id="_mcePaste" style="overflow: hidden; position: absolute; left: -10000px; top: 1399px; width: 1px; height: 1px;"> <p style="margin-bottom: 0in;">sabotaging</p> </div>