

BLOOMER FINANCIAL PLANNING

On Picking Stocks.....

My name is Jim, but I'm no Cramer!

Personally, I love Jim Cramer. Besides being a Philly native, he is super smart, funny, and refreshingly honest. His knowledge of investing is unparalleled. I particularly love the lightning round on Mad Money where callers ask him about stocks to buy or not buy and he issues two-sentence opinions along with buy/sell recommendations.

The problem is that even Jim Cramer is at best 50% right, meaning he is 50% wrong. Various studies have looked at his stock picks over time, and while the result vary based on the timeframe, his picks do not consistently exceed market indices. That is not a criticism of Jim Cramer. Stock prices reflect all the information up to the present, and he does not know what will happen in the future any more than you or I do.

And I'm no Jim Cramer!!! Which is why I shrug when friends, colleagues, or random people I meet ask the inevitable question (often with very little research into the companies):

- Should I buy Apple-after all it is the best performer in the S&P 500 Index?
- What do you think about Kodak-I heard a rumor about a deal?
- Should I invest in this Chinese internet Company I heard about on Squawk Box?
- Etc.

It seems to me they are asking the wrong question. The right questions would be:

- What will I use this investment money for in the future?
- How long will it be invested before I need it?
- How does this investment help me achieve my investment strategy?
- Will this investment help me diversify my portfolio?

Don't get me wrong; picking stocks is fun. I've enjoyed doing it, but I also put hours of research into each potential stock pick. Even with all my research I can also tell you some horror stories (like Enron). It is EXTREMELY difficult to consistently beat the market by choosing individual stocks. Think about that before you hire an advisor for 1% of assets to choose stocks! You also need at least 20 companies in each sector to be safely diversified. That is a lot of research work.

Now, I increasingly use mutual funds (both passive index funds and actively managed) to achieve my financial goals. But that is the main point; every investment decision needs to fit into a well thought out financial/investment plan. If you hold extra money you can afford to lose, are willing to do the research, or have particular knowledge or interest in the company, go ahead and buy that stock (and at least 19 others so you are diversified)! Otherwise, let the index funds and/or mutual fund experts do their jobs and put your individualized, well-thought out, financial plan to work.