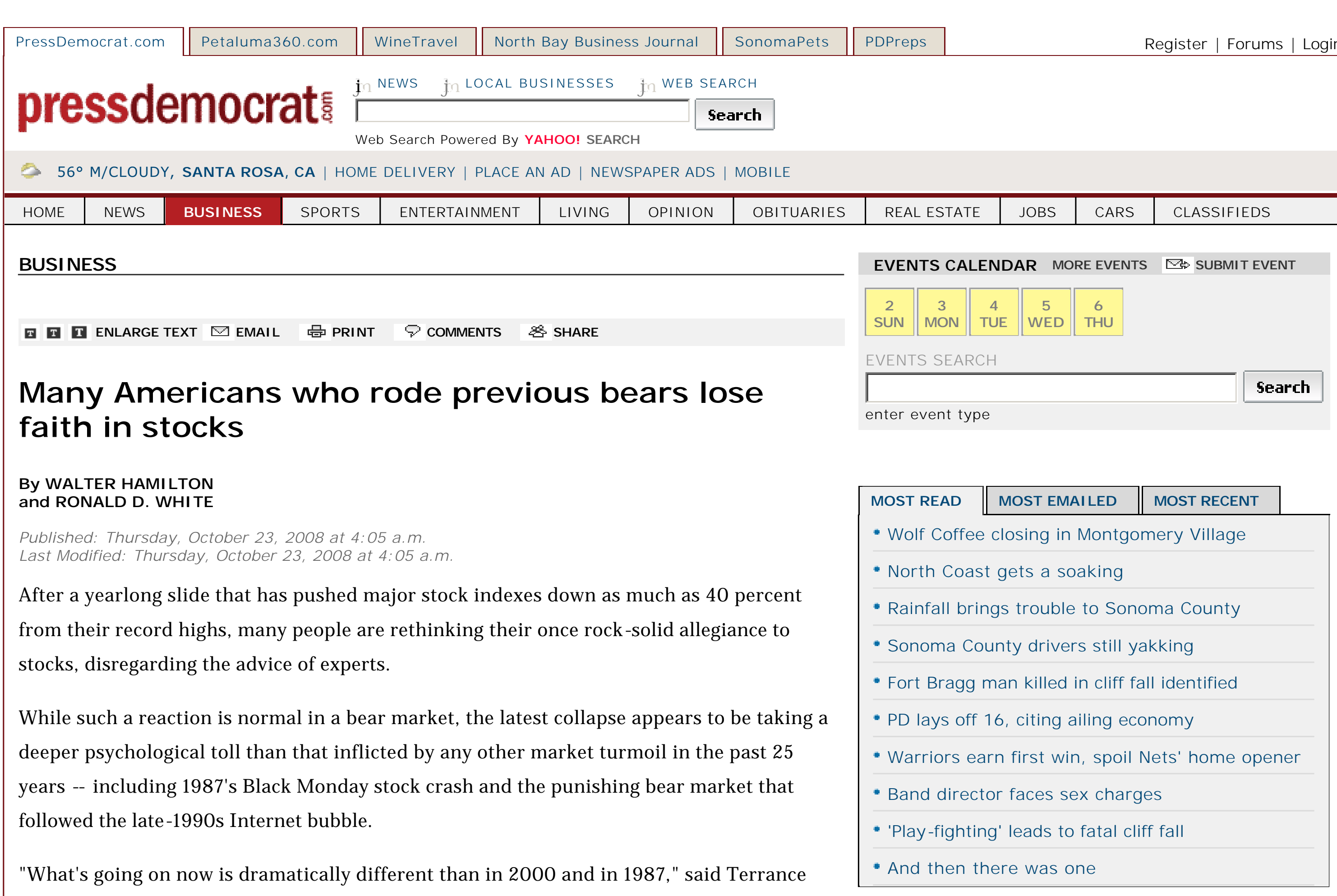

BUSINESS

Many Americans who rode previous bears lose faith in stocks

By WALTER HAMILTON
and RONALD D. WHITE

Published: Thursday, October 23, 2008 at 4:05 a.m.
Last Modified: Thursday, October 23, 2008 at 4:05 a.m.

After a yearlong slide that has pushed major stock indexes down as much as 40 percent from their record highs, many people are rethinking their once rock-solid allegiance to stocks, disregarding the advice of experts.

While such a reaction is normal in a bear market, the latest collapse appears to be taking a deeper psychological toll than that inflicted by any other market turmoil in the past 25 years -- including 1987's Black Monday stock crash and the punishing bear market that followed the late-1990s Internet bubble.

"What's going on now is dramatically different than in 2000 and in 1987," said Terrance Odean, a UC Berkeley finance professor who studies the behavior of small investors.

"What's different is that people have seen the possibility that markets could fail them and that they could do everything they were supposed to do -- everything they were told to do -- and still not have what they need in retirement."

Investors have yanked a net $176 billion from stock mutual funds this year, more than half of it since Sept. 1, according to TrimTabs Investment Research. The exodus might intensify as more third-quarter brokerage and 401(k) statements show up in mailboxes.

"It reminds me so much of people's reaction after an earthquake," said Michal Strahilevitz, a business professor at Golden Gate University in San Francisco who studies investor behavior. "You're going about your daily business, and suddenly things that were never frightening are now frightening, and bad things that seemed impossible are now possible."

Some people are taking it to extremes.

Bonnie Reyes, president of a Michigan group that sponsors investment clubs, said a neighbor recently confided that she might withdraw all her money from the stock market and keep much of it at home. She was shopping online for a vault.

"I said, 'You can't be serious,' and she said, 'Oh, I'm really thinking about it,' " Reyes recalled.

For a quarter of a century, many Americans embraced the dogma that stocks or stock mutual funds should be the foundation of any retirement nest egg. Sure, the stock market would dive from time to time, but investors knew it was very likely to outperform other asset classes such as bonds in the long run. In fact, since World War II, stock prices generally took less than a year to erase their losses from a bear market (defined as a market drop of at least 20 percent), although in some cases recovery took as long as five years.

Many investors looked down on the safest, most conservative investments such as money market mutual funds, bank certificates of deposit and Treasury bills because they all are at

EVENTS CALENDAR MORE EVENTS SUBMIT EVENT
2 SUN | 3 MON | 4 TUE | 5 WED | 6 THU
EVENTS SEARCH
Search
enter event type

MOST READ | MOST EMAILED | MOST RECENT
- Wolf Coffee closing in Montgomery Village
- North Coast gets a soaking
- Rainfall brings trouble to Sonoma County
- Sonoma County drivers still yakking
- Fort Bragg man killed in cliff fall identified
- PD lays off 16, citing ailing economy
- Warriors earn first win, spoil Nets' home opener
- Band director faces sex charges
- 'Play-fighting' leads to fatal cliff fall
- And then there was one

great risk of losing value after inflation is taken into account.

As the population aged, the commitment to stocks didn't waver. Some financial advisers counseled clients in their 50s and 60s to keep a sizable portion of their assets in stocks, reasoning that people are living longer and don't want to outlive their money.

As a result, at the end of 2006, of participants in 401(k) retirement plans between 56 and 65 years old, more than 1 in 4 had at least 90 percent of their money in stocks, and nearly half had at least 70 percent, according to the Employee Benefit Research Institute.

Even now, the majority of investment advisers would strongly urge people not to give up on stocks, especially when most of the damage to their portfolios arguably has been inflicted already.

Most individual investors are sticking with that advice.

"For every client that says to us, 'I want to sell everything or nearly everything,' there's another client who has assets that have been on the sidelines and who is looking to establish positions at deeply discounted prices," said Jeff Morley, an executive in Charles Schwab & Co.'s client service group.

But for many, this time is different.

"What's really scaring investors today is whether this mega-meltdown will take 25 years to get back to even, like it did after the Great Depression," said Sam Stovall, chief investment strategist at Standard & Poor's.

Nerves are frayed in part because most people aren't used to grueling bear markets. One reason stocks became so popular in the 1980s and '90s was that the stock market did unusually well in that period. In that context, the bear market of 2000-02 could be explained away by some investors as a fluke triggered by speculation in risky, sometimes still-unprofitable technology companies.

"Even after the tech boom there was definitely this notion that stock market investing was to a certain extent easy money," said Maria Crawford Scott, editor of AAII Journal, a publication of the American Association of Individual Investors. "That notion has definitely ended."

The timing is significant: Many investors had barely recovered from the 2000-02 downturn when the current one began in October 2007. And they now are 10 years older than they were at the heyday of the Internet boom -- meaning they have a decade less to recoup their losses. And if they've continued to contribute to their 401(k)s or other retirement accounts, as most people have, they're staring at far larger losses than they were six years ago.

"Whereas in the beginning of this decade their account balances might have just hit six figures, now they may be in the $200,000-to-$250,000 range," said Jack Van Derhei, research director at the Employee Benefit Research Institute. "A 10 percent drop at $250,000 has a much bigger psychological impact on them than a 10 percent drop at $100,000."

Bill Orton, a 46-year-old political consultant, said his faith in the stock market, merely shaken by the tech crash, is now shattered.

A stock fund he bought a few years ago has plunged in value, while U.S. savings bonds he picked up at the same time have been a rock of stability. Orton now declares himself finished with stocks.

"But I am feeling really good about those savings bonds," he said. "I like bonds."

ADD A COMMENT

Only moderator-approved comments are shown on this page. To see all comments, please visit the forum.

Post a comment | View all comments on this topic.

Copyright © 2008 PressDemocrat.com — All rights reserved. Restricted Use only.