

# Deal or No Deal

**THE TIME:** A Thursday morning sometime in the future.

**THE PLACE:** A small apartment on the West Side of Manhattan. The orange glow of morning enters the apartment through two small and somewhat dirty windows that face a narrow alley. The city below is just beginning to stir. The streets are quiet save for the sporadic horn of an impatient taxi driver. John Hamlet, an independent investor, paces about his apartment, contemplating the recent run-up in the market that has sent stock indices to their highest levels in years.

**HAMLET:** To deal or not to deal. That is the question. Whether 'tis nobler in the mind to willingly suffer the slings and arrows of market volatility in pursuit of outrageous fortune or to take up arms against a sea of economic troubles by minimizing portfolio risk, and by hedging, resign oneself to nothing more than dull but steady returns.

**A VOICE:** Be cautious, John. Don't chase the market and get caught in another bubble. Remember: There's no such thing as easy money.

**A SECOND VOICE:** Bubble, schmubble. Go for it, Ham. If this is a bubble, so much the better. Ride it up a bit, jump off, and pocket a nice, quick profit. Remember: No risk, no reward.

**HAMLET:** Ah, enough with these voices already. Dare I set caution aside and jump aboard this careening profit train? Or should I cast my lot with those who sit patiently on the sidelines, where conscience seeks to make cowards of us all?

Shakespeare was an astute observer of human behavior, and if he were alive today, I suspect he'd be intrigued by the common person's evolving and growing relationship with this thing called the stock market, where average trading volume on the New York Stock Exchange alone has spiraled from 4 million shares a day in 1960 to nearly 2 billion shares a day in 2006.

And if the Bard were to write a play about Everyman (or Everywoman) and the marketplace, the story line might go something like this:

Beginning in the mid-1990s, with the Dow hovering below 6,000, our hero would be drawn in, first by reason and then by greed, as the Dow rose to 8,000 in 1997 and then 9,000 in 1998. We, the audience, would watch in astonishment as our protagonist's fundamental attitudes about work and savings and retirement quickly

change with the promise of fast and easy money.

The pace would quicken with the meteoric rise of NASDAQ. Yet even as the central characters proclaim "a new era of prosperity for the common man," the tension would mount. For we, of course, know what happens next.

The cast of supporting characters could be as colorful as those of Elizabethan England. Choices would range from the folksy Beardstown Ladies (whose investment club meetings began with a prayer and ended with a recipe) to the crafty professional, Jim Cramer, who screams out his buys and sells nightly on a show called "Mad Money."

And as the curtain falls on Act I, we might find our hero pondering his economic future while lamenting those innocent days when savings bonds and Christmas Club accounts qualified as wise investments.

In Act II, Everyman would face difficult choices about how hard to push his invest-



ment portfolio (i.e., how much risk should he take on) to make up for expected shortfalls in the economic safety nets of Social Security, pensions, and Medicare. And lurking in his subconscious would be the ghosts of those heady times when the market seemed to go upward by the hour.

What a dilemma. Does Everyman follow those who preach a mantra of diversification, long time horizons, and avoidance of market timing? Or should he try to mimic what those experts are doing rather than what they're advising?

According to *The Economist* (May 20, 2006), "mainstream investment funds and hedge funds have pursued the same strategies lately, jumping from bonds to equities and then to currencies and on to emerging markets." Not to mention oil and gold and commodities and real estate.

In *Common Sense on Mutual Funds*, John Bogle noted that "turnover rates now average nearly 90 percent and mutual funds are rushing to buy and sell their stocks with seemingly carefree abandon based on transitory changes in prices." So much for "buy and hold."

And then there's that tricky topic of risk tolerance.

Institutional investors have the benefit of intricate mathematical models to measure risk, and recent developments in enterprise risk management are taking these analyses to new levels of sophistication.

But for Everyman, financial planner Harold Evensky, principal with Evensky, Brown, Katz, and Levitt, says it elegantly: "When the market goes up, risk tolerance is infinite. But when it goes down, risk tolerance often shrinks to zero." (See Paul Lim in *New York Times*, May 28, 2006.)

The path ahead for the individual investor will include both successes and failures.

Here's hoping all's well that ends well. ●

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