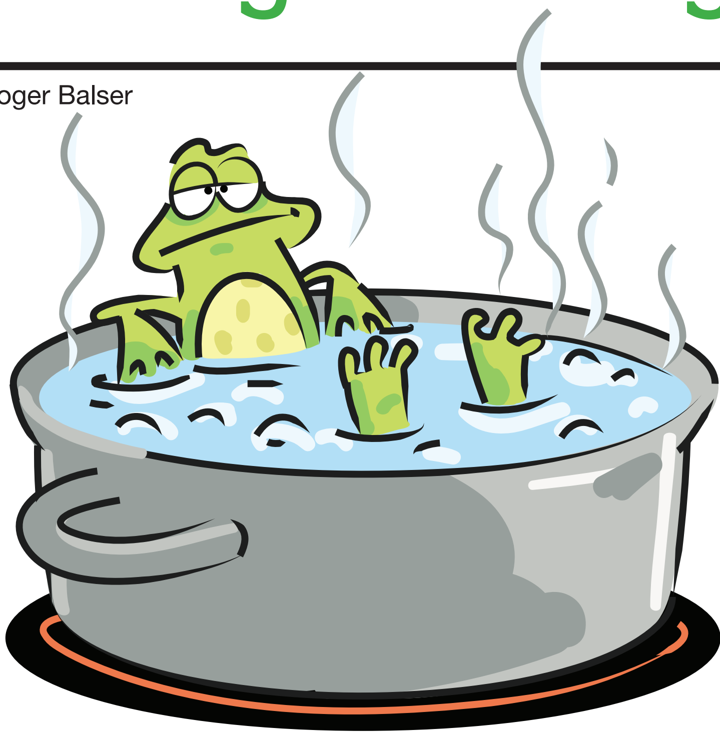
Boiling the frog

by Roger Balser



We've all heard the old fable about the "boiling frog." In the story, a frog is placed in a large pot filled with cold water. He's very content with not a care in the world. Then someone comes by and fires up the burner. The water in the pot slowly begins to get warmer and warmer, but the frog is not concerned, as he finds the warmth refreshing. The heat keeps gradually rising until the frog has become so relaxed he falls asleep, never to awaken.

This story reminds me of today's investors, including individuals with IRAs, 401(k)s, and other retirement accounts. In the past year we've seen the stock market jump to record levels. Today, the Dow Jones Industrial Average has surpassed the 20,000 mark, a notable milestone in the present investor world.

You could say that the investment waters are getting warmer and warmer, with relaxed, content investors not paying close attention to their investment portfolios.

Since 2011, we have had four small corrections in the market, but not one ever went past a 10% reduction. So, is this market gradually becoming overheated? Are you about to become boiled?

If you look back to 1999 and 2007, many folks were floating along, content and relaxed in the increasing warmth of the market, but failed to even think about an exit plan. Then in 2000 and 2008 there came a plague of boiled frogs.

A smart frog will not be lulled to sleep because it will have a plan to jump out of the pot when the heat gets turned up. A frog without a plan will turn into the proverbial frog soup.

There are many ways for the frog to jump out of the water. After all, any plan to jump out is better than no plan at all. Similarly, there are many ways for investors to retain their profits, or at least not lose their money the next time the market heads down.

And trust me, the market will head down. That is, unless history decides to stop repeating itself.

At Balser Wealth Management, we do not rely on forecasts, but instead rely on point and figure charts to guide us. Charles Dow came up with the point and figure chart concept nearly 130 years ago. Dow was the first publisher of the *Wall Street Journal* and founder of the Dow Jones Industrial Average that bears his name. Dow kept listening to all of the "experts" who were quick to spout out their fundamental reasons why particular stocks hypothetically "should" go up or "should" go down.

Dow's answer to speculation came in the form of a simple method to plot the price movement of desired stocks. This price plotting gave him a broad picture of stocks that were in demand and stocks that were in supply, and provided a much clearer view than what the analysts could ever predict.

His charts showed that anything "in demand" would see a price increase, and anything "in supply" would see a price decline. Frankly, that's not an economic theory—it's a law. It's called the law of supply and demand, and even a fourth grader can understand it.

The moral of this story is that any fool (or frog) can buy, but it's the wise man (or smart frog) who knows how to sell and escape the pot. The market waters are heating up. Don't fall asleep and become a boiled frog. **OB**

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