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ASK THE **ADVISERS**

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Warning Labels

There are many products available to consumers that provide potential benefits but also come with potentially harmful side effects. In 1898 pharmaceutical giant Bayer developed Heroin from morphine and sold and marketed Heroin to small children as a remedy as a cough suppressant. The product worked well for that purpose, but it had some nasty side effects. The product, which was available over the counter, really should have come with a warning label because Heroin is extremely addictive. Eventually, the FDA banned the drug. Another thing that can be very beneficial yet also very dangerous is investing in stocks. While many individuals have found success and wealth through stock market investments, there are significant reasons why investing should come with a warning label.

1. **The average investor underperforms the stock market.**

First and foremost, the stock market is inherently volatile. Prices can fluctuate wildly within a short span, driven by factors such as economic conditions, geopolitical events, and company performance. The unpredictability of these fluctuations poses a substantial risk to investors. Without a proper understanding of the market dynamics and a carefully constructed investment strategy, individuals may fall victim to impulsive decisions based on short-term market movements.

2. **The stock market is prone to periods of irrational exuberance and excessive speculation.**

During such times, investor sentiment can drive prices far beyond their intrinsic value. This phenomenon creates an environment where investors may be lured into purchasing overvalued stocks, only to suffer significant losses when the market inevitably corrects itself.

3. **The stock market is an inefficient tool for retirement planning.**

Although the stock market has averaged 8-10% over the past 50 to 80 years there have been several 10–15-year periods where stocks have posted negative returns. Since most investors are more concerned with the next 10-15 years than with the next 80 years, a bad decade can decimate even the most meticulous financial plan if that plan is relying on the stock market to perform reasonably well over the next 15 years for the plan to work as intended.

Source: Dalbar 2023