Following Jim Cramer’s Advice

By
Susan Carr-Templeton
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What you should know about taking Jim Cramer’s recommendations – the good and the bad.

As time moves on, I meet more and more CNBC news addicts. This network does a great job of staying abreast of the global markets’ activities and keeping viewers informed about all types of investments. It also allows viewers to hear from chief executives of many well-respected public companies.

Jim Cramer is part of CNBC’s morning team and hosts an evening program called *Mad Money*, which continues to rise in popularity. Is Mr. Cramer really the market guru that many think he is? I made a vow recently to write down the date and message when he talks about being invested or selling. This is also known as Mr. Cramer’s hyperzealous expression: “SELL SELL!!”

I would then correlate his recommendation that with the market’s performance. Intuitively, I knew that his predictions were off, and if investors tried to follow his ‘buy, buy, sell, sell’ whiplash, they would be timing the market, which has been proven to not work. They also would incur high trading costs from getting in and out of the market and, in the case of a taxable portfolio, any gains would be taxed at the investor’s maximum tax rate, thereby reducing the return. Not to mention, investors would feel exhausted trying to keep up with his volatile recommendations.

However, a little Internet research showed me the homework had already been done. Allan Roth, a journalist and author, wrote the article “How James Cramer made me 22 percent in 22 days.” Mr. Roth did the opposite of Mr. Cramer’s advice when Mr. Cramer advised investors to sell HP and Best Buy last November. Instead, Mr. Roth bought these stocks and sold them 22 days later at a 22 percent gain.

Mr. Cramer does not always give poor stock-picking advice, but his record of stock selection is questionable when you look at a study conducted by the Kellogg School of Management. A research group tracked 246 recent stock picks recommended by Mr. Cramer. They found the stocks on average rose in price after Mr. Cramer’s recommendation, but their prices fell within 12 trading days of the advice. After factoring in transactions costs, the investor would have lost money.

Why does Mr. Cramer continue to perform in this fashion instead of giving solid, grounded investment advice? Because recommending that individuals buy a well-diversified portfolio using exchange-traded funds or well-managed mutual funds and holding for the long term will likely not bring in viewers. Buying and selling individual stocks in rapid fire succession and getting in and out of the market is far more exciting and adrenaline-building.

Mr. Cramer does add value in some ways: He gets people engaged in the stock market. If one can make investing fun and involving, more people will pay attention and become better-educated investors. They will learn to understand the stock market’s gyrations and how it is impossible to predict where the market is going as well as recognize the importance of long-term investing and diversification. With that knowledge, they will be more apt to execute their investments in accordance with their goals.

Disclaimer: The views expressed in this article are the opinions of the author and should not be interpreted as individualized investment advice. Investment objectives, risk tolerances and the financial situation of individual investors may vary. Please consult your financial and tax advisors before investing.

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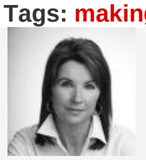

About Susan Carr-Templeton

Susan Templeton is the founder of Stafford Wells Advisors, a wealth management firm serving individuals, families and businesses and advising workplace retirement plans. Stafford Wells was founded in 2008 with the mission of delivering independent, complete, unbiased investment and planning advice, free of any conflicts of interest. Susan Templeton has more than 20 years experience in investment management. She received her B.S.B.A. degree in marketing from the University of Denver and her M.B.A. from the University of Chicago. Susan is a trustee for the Advocate Foundation where she chair's the Planned Giving Committee and is a member of the Investment Committee. Susan serves on the investment committee for the Visiting Nurse Association (Chicago) and is a former trustee of the Village of Oak Brook Police Pension Plan.