Last August, while participating in a regulatory panel about the May 6, 2010, “flash crash,” it occurred to me how little attention is given to the actual process of buying and selling securities. This is a very important, but often misunderstood, part of investing. The type, size and timing of an order to buy or sell a stock impacts if, when and at what price your transaction is fulfilled. This is why I asked Chris Nagy, who sat next to me at the panel, to contribute to an article for the AAII Journal.

Chris is the managing director of order routing, sales and strategy for TD Ameritrade. He and I spoke last month about what happens behind the scenes when an order to buy or sell is placed. We also discussed the pros and cons of various types of orders, including stop orders. A transcript of our conversation appears on page 7.

Another topic that does not always get the attention it should is the question of when to start taking Social Security benefits. Though it is well known that the amount of the monthly benefit increases from age 62 to age 66, from a purely economic standpoint, does it make sense to delay Social Security to age 66? Robert Muksian, a professor of mathematics at Bryant University, explains the factors that should be considered on page 13.

Financial decisions are often influenced not only by mathematical equations, but also by emotions and cognitive errors. Since we are not robots, it is not always easy to keep our mental biases out of the investing process, yet it is important to try to do so. Even a simple awareness of the most common errors can help. Meir Statman, a speaker at this year’s upcoming AAII Investor Conference in Las Vegas, offers his insights on page 17.

In addition to mental biases, some investors make the mistake of trading too often. This can lead to underperformance. In fact, Mark Hulbert, editor of the Hulbert Financial Digest and also a speaker at our upcoming Investor Conference, found that investment newsletter performance would have been improved had advisers kept their portfolios intact for a longer period of time. Mark discusses the results of his latest study on page 22.

Last month, I discussed the advantages of rebalancing on a regular basis. Though I used annual rebalancing as an example, a slightly more advanced strategy may bring about even better results when expenses are factored in. Colleen Jaconetti, Francis Kinniry Jr. and Yan Zilbering of Vanguard found that rebalancing annually or semiannually when allocations are 5% or more off-target provides a good balance between investment goals and cost minimization. You can see the results of their study on page 24.

Portfolio rebalancing is one of the strategies retired investors can use to free up cash for required minimum distributions (RMDs). In the inaugural edition of Retired Investor, I discuss strategies for lowering the transaction costs when freeing up cash for a required minimum distribution from a retirement plan. Retired Investor is a new periodic column that was created in response to requests for content geared toward members who are age 65 or older. You can read the column on page 28.

Speaking of allocations, as I write this, there are signs that risk tolerances for high-yield corporate debt are continuing to rise. Corporate bonds do provide a higher level of interest than U.S. Treasury bonds, but they also carry a higher risk of default. The key for corporate bond investors, therefore, is to determine the likelihood that they will, in fact, be repaid by the bond issuer. Jason Brady, a portfolio manager with Thornburg Investment Management, explains how to analyze creditworthiness on page 29.

Allocation remains a key concept of AAII’s model portfolios. In his latest Model ETF Portfolio update, AAII Founder James Cloonan discusses the impact of holding real estate funds. He also explains our upcoming plans to write combined, but more frequent, updates for the Model ETF and Model Mutual Fund Portfolios in future AAII Journal issues. His commentary starts on page 34.

Wishing you prosperity,
Charles

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