

OPINION:

The False Promise Of Internet Investing

Even In The Fast-Paced Era Of Internet Trading, Expert Advice Is Still Necessary For The Long Haul

By Maggie Craddock, a former lead portfolio manager

NEW YORK--The recent trend for investment houses like Merrill Lynch and Scudder Kemper to expand their Internet offerings (while scaling down the number of employees available to field customer questions) may not be in the long-term best interests of investors.

It's the same trend that's leading the Internet push in other industries--a push for increased profits and market capitalization by giving customers what they want.

Unfortunately, investors don't always realize what is in their own best interests. That's why they turn to investment professionals in the first place.

In a booming market, where the winning strategy is often just a matter of getting money into the market and keeping it there, sales representatives--those employees who work to help customers make allocation decisions--may seem superfluous.

After all, if all we've got to do is buy, why not get rid of the people in the middle and replace them with cost-effective software?

The danger behind this logic is that it is driven by the emotions generated in an economic boom, and overlooks some important risks inherent in an overreliance on Internet technology.

Computers and the seductive world of virtual possibilities they create can lead us to blur the boundaries between fantasy and reality.

This can be a good thing in terms of inspiring us and fueling our creativity, but it can be dangerous when it encourages us to pretend to be something we are not.

That entertaining ad for the investment house Dean Witter comes to mind, where the big guy driving the truck casually refers to the island he has acquired through on-line trading.

Investment reality isn't nearly as much fun. Managing money takes guts, discipline and luck. Anyone who's ever had any real responsibility in finance will

tell you the luck factor is critical.

There are many talented investors on Wall Street who still have to work for a living, and most people in financial services don't have the luxury of retiring before 40.

Beware the temptation to play "master of the universe" while trading your retirement funds just because you have access to on-line trading. It's not as easy as the discount brokers hope you think it will be.

One of the biggest enemies of profitable trading is excessive emotion, and technology often fuels our passions.

Avoiding an adrenaline rush is hard when enthusiastic announcers on financial news networks constantly feed images of excited traders on the exchange floor.

Let's be clear about one thing. Traders are not investing on the floor of the exchange, they are trading. Trading is a short-term-oriented discipline.

Granted, there's a thrilling amount of adrenaline on the floor of the stock exchange. That's why financial news networks keep pumping it into your living room. Financial journalists want to keep you tuned in to their TV station.

The fantasy: The financial markets are one big video game you and I can get paid handsomely for playing.

The reality: Investing and trading have radically different time horizons, and require radically different skills.

Private investors should stay focused on investing. In terms of winning at the short-term game, traders know things on the trading floor they're not going to share with us over the Internet.

That's why some of them are called specialists. One frightening piece of evidence that the Internet boom has pumped up investors' emotions is the venomous dialogue in Internet chat rooms among personal investors trying to glean information about their stock positions.

A few minutes in one of these chat rooms, and it's clear that some people

have lost track of how they are coming across to others. If these people had to write a personal letter to the chief executives they vilify, they might examine their thought process a little more carefully and delete a few of the expletives.

But the anonymity the Internet provides encourages the kind of aggression we normally associate with nasty behavior in traffic jams and violent video games.

The Internet lets you fantasize that if you were the company's chief executive, board member, etc., you could do a better job than those "jerks."

The reality is that in a chat room, you never have to say what you'd do differently but have the luxury of claiming "I told you so" with hindsight, from the sidelines.

A final word of caution about Internet investing.

The irony is that even though communication advances like the Internet connect us in new and exciting ways, they can also foster a self-absorbed sense of not needing anyone but our own brilliance and a fast modem.

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