

Sifting Through the Carnage

October 14, 2008

For a moment, it appears the financial storm has temporarily let up and we can all take a deep breath. For a moment, we can look with amazement at the financial devastation all around us. For a moment, we can take time to assess the damage done.

The last few weeks in the financial marketplace have left many investors dazed, confused, and feeling helpless. Never in our 50+ year combined careers have we seen fear and confusion so prevalent. Clients from all wealth categories have been hurt, financially and emotionally, and are frozen as to the next move to make.

We are urging each and every one of you to become “unfrozen” and to focus on steps you can control. It is historic moments such as these that require historic efforts on all our parts. We urge the following actions:

Assess the damage

Each of us has different financial situations, goals, and timeframes. For those who have investments outside of FFA, check with your provider to see where things stand. Know how your investments performed relative to other funds of its type. If you are working with FFA, rest assured we are continuously analyzing all investment options.

Study the history of bear markets

You will learn that the losses on the stock portion of our portfolios are entirely in line with previous bear markets. While each bear market has its own distinct nuances, most follow a classic timeline. The technical timeline is too complex to summarize; the emotional timeline is one most can relate to and understand.

In declining markets, investors slide through emotional stages. As stock values drop, investors feel anxiety, then denial, then fear, then desperation and finally panic; at this time, investors capitulate and believe that the “world is ending” and that “this time is different.” These stages have been seen in each and every bear market we have studied and/or lived through.

It is at this time of capitulation that no amount of common sense seems to help. It is at this time that clients hear our words intellectually but cannot grasp them emotionally. It is at this time where investors are consumed with the daily movements of markets. And it is at this time where investors have a choice to make: trust history and those who have lived it or believe that this time it is different and history does not matter.

Update your financial plan

For those on the cusp of retirement, it is critical for you to run your retirement projections with the new values of your investment savings. Lean on us or take pencil to paper but do it. As many of you have learned, your account values are down but nowhere close to what the media is portraying. By running the projections with current figures, you will have a factual - not emotional - understanding of what damage has actually been done. More importantly, you will learn the steps needed to continue your journey to your financial destination(s).

Continue saving for your goals

If you are adding money to your retirement plan, don't stop. If you are systematically saving for children's or grandchildren's college, don't stop. The prices of almost all types of stocks are on sale, an all-out clearance sale to be precise.

Review your emergency savings requirements

If you have engaged FFA for your financial planning needs, you know what your emergency fund requirements are. If not, use a rule of three to six months of critical expenses as your base need for this fund. If you have not built up this fund, use liquid, insured accounts to do so, such as CDs and money markets.

Reevaluate your risk tolerance

At the beginning of all investment relationships, we at FFA are required to assess your risk tolerance. Through a fact-finder, questions are asked and answered and through this process, your risk tolerance is determined.

Now that you have real world experience in a bear market, reevaluate your risk tolerance. We construct portfolios based on risk tolerance, timelines, and assets available to fund future goals. If you find the drops in your accounts are leaving you dazed, sick, confused, angry, or any of the above, it is time to reassess your portfolio allocation. Just because we at FFA have been through ugly times before and have faith in the stock market, doesn't necessarily mean you have the psychological tolerance for such volatility.

Understand there is some good news

Beyond the screaming headlines is some positive news. Oil and gas prices have plummeted, interest rates are dropping, CD rates have become attractive, liquidity will be flowing to banks for loan purposes, and the governments of the world are united in not letting the financial marketplaces implode. Stores are offering significant sales, auto prices are being cut dramatically, and the election is near.

As always, thank you for your trust and confidence. Together, we will continue the financial journey.

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