

MONEY WISDOM – Column #3 - March 7, 2008

“The Sky is Falling...The Sky is Falling!”

“The sky is falling...the sky is falling,” so said Chicken Little. Or so says almost every headline recently. A recent scan of MarketWatch.com’s headlines seems to confirm Chicken Little’s cries: “Widespread Contraction”; “When Debt Collectors Go Too Far”; “What Should Bulls Learn from Bears”; “Winter of Discontent”; “Sharper Image Declares Bankruptcy”; and “When the Pink Slip Lands on Your Desk”.

These headlines are not unique to MarketWatch. If there is one thing the media excels at, it is serving up news that catches your attention. And, given the perfect storm currently occurring in the market and the economy, the news writers surely have their pickings of bad news to report.

As Certified Financial Planner™ practitioners, we are often asked our viewpoint on the markets and the economy. The current hot question is: “when will the economy and market turn around?” This clearly is a sign of the times since the hot question of prior years was always: “what’s a hot investment tip?”

So, when will the market and economy turn around? Well, considering the Chairman of the Federal Reserve and Warren Buffett, the richest man in the world, cannot even agree whether we are in a recession or not, it would seem a tad presumptuous of us to claim we have the answer. In earlier days as stock traders, we thought we knew how to predict the future and then the crash of ’87 came. Suddenly, our perceived ability to know answers that are unknowable was no longer a perception but rather an aberration.

There are, however, certain indicators that have proved useful in the past. For instance, when every single adult we meet talks about financial pain, it could be surmised that times are tough. When banks proudly display their 2.7% CD rates, it typically is indicative that times are tough. When home sellers drop their prices by 30% and no one bites, it is fair to assume that times are tough.

When all agree that times are tough and bad financial news is all we hear, you can be assured we are close to the bottom. How close? That is the million dollar question. For long term investors, the current economic malaise creates opportunity. Buying low beats buying high...and prices are certainly lower than they were a year ago. For those with short time horizons, investing in the stock market should not be considered, period.

The classic Broadway musical Annie featured a song most are familiar with; that song included the words “the sun will come out tomorrow”. With darkness follows light – even in the stock market.

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