

February 28, 2007

Market Commentary: Take A Deep Breath

Tuesday's big market downturn has surely prompted many of us to ask, "What is going on?"

It's also likely reminded us that we cannot escape risk.

This most recent downturn illustrates yet again how intertwined global markets are today. Concerns over a big drop in the Chinese stock market and disappointment over the latest U. S. durable goods orders for January triggered the sharp decline yesterday. Add in geopolitical events with the Afghan bombing, and the snowball downhill just kept gaining momentum. So much so that in less than 4 minutes yesterday afternoon – around 3pm EST – the Dow plummeted 254 points as a backlog of sell orders made their way through the ticker.

Perhaps some decline was overdue. The markets have risen sharply recently, some even notching all-time recent highs. The period leading up to Tuesday's decline represents the second longest time period the markets have gone without experiencing a 2% or larger drop. Some market gurus had even been hinting at a likely market downturn soon.

It's pretty easy to want to jump ship at this point.

But before doing so, it makes sense to think in broader terms. This is not the first huge market downturn. Think back to the nearly 700 point drop in the Dow on the first day of trading after September 11, 2001. Or the 500+ point drop on Black Friday, October 19, 1987.

Yet market averages are typically the most bullish after 1 month following 400 point drops or greater. To wit:

- 1 Day later the Dow has been up 83.3% of the time, for an average of 3.58%
- 1 Day later the S&P 500 has been up 83.3% of the time, for an average of 3.79%
- 1 Day later the NASDAQ has been up 66.6% of the time, for an average of 5.2%
- 1 Month later the Dow has been up 83.3%, for an average of 5.67%
- 1 Month later the S&P 500 has been up 100% of the time, for an average of 5.01%
- 1 Month later the NASDAQ has been up 83.3% of the time, for an average of 5.86%

You're probably saying, "Market averages may be one thing, but they sure don't help this queasy feeling in my stomach."

I fully understand. That's all the more reason why we need to think long-term and stay focused on our goals. Here are a few key reminders:

- Everyone needs to have clearly defined goals and investments that are aligned with their personal goals. Emerging market stocks have been recent media darlings; yet, as we've just been reminded, all types of investments are not for everyone. Know what your investments are, and be comfortable that they align with your own goals.
- Volatility diminishes the probability of achieving goals. Having a well-diversified portfolio helps reduce volatility.
- Investing must be a thoughtful and disciplined process. You will most likely not achieve success by following a willy-nilly approach, such as grabbing different investments here and there because you heard they were favorably mentioned

somewhere. Rather, individual investments must be appropriate for you and serve a compelling purpose within your own portfolio's allocation.

Keep in mind that risk is not unique to stocks. Values for bonds and bond mutual funds fluctuate as interest rates rise and fall. Creditors default from time to time, highlighting potential credit risk. Even cash cannot escape the loss of purchasing power through the form of inflation risk.

The immediate days ahead may still be filled with volatility. Before jumping completely out of the markets, ask yourself objectively what has changed since your portfolio strategy was developed and individual holdings were recommended.

Having a balanced perspective and a long-term view – and perhaps some objective advice from a competent advisor now and then – can help ease the inner turmoil we all feel during big market declines.

In summary, don't put a short-term perspective on a long-term strategy. If you're wondering whether your portfolio is still appropriate for your goals and risk levels, perhaps now is the perfect time to schedule a portfolio check-up.

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