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Wollman Wealth Designs

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Stroll Down Memory Lane

How to not shoot yourself in the foot

Do you remember where you were and what you were doing the summer of 2008?

- On vacation with no internet, phones or TV?
- Sweating bullets, checking your 401(k) balance daily or worse yet, hourly?
- Calling your financial advisor and demanding he / she sell everything?
- Putting off your much awaited retirement?
- Watching For Sale signs go up in your neighborhood and listening to people talk about foreclosure and getting laid off. And yes, your house is now worth less than your loan balance?
- Quietly buying stocks because of the sell-off in price?

Facts you may have forgotten (or for sanity purposes, choose not to remember):

- Bear Stearns was taken over by Chase in March 2008.
- Fannie Mae & Freddy Mac were put into receivership September 6, 2008.
- Indy Mac Bank failed June 11 –--4th largest bank failure in US.
- Lehman Brothers went bankrupt September 15, 2008.
- Merrill Lynch, also a victim of sub-prime mortgage investing, was taken over by Bank of America also on Sept 15.
- Washington Mutual Bank was put into receivership by FDIC on September 25.
- AIG would likely need a bailout and ultimately received it late in 2008.

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The financial world seemed to nearing an end. Apocalypse? Armageddon? Is this the next Great Depression? Global economic collapse?

Things worked out for many people. Not so good for others. Note the following changes in the S&P 500(1).

- S&P 500 peaked at 1576 on October 11, 2007.
- Sept 15, 2008 the S&P 500 closed at 1193 after the bankruptcy of Lehman.
- March 9, 2009 the S&P500 closed 679 ---this was the bottom.
- By September 15, 2009, one year after the Lehman bankruptcy, the S&P500 closed at 1192.
- August 31, 2018, the S&P500 closed at 2,901.

Strategies to Avoid Making Bad Decisions

Start with a plan.

- What are your priorities? When will you be needing money to spend from your investments. Do you have a plan?
- Your plan, not current events, should drive investment decisions.
- How much $$ do you need to accomplish your financial goals? What rate-of-return is necessary?
- What did you do in the last two emotional investment periods?

* The “growth-Dot.com” bubble of the last ‘90s and early 2000?
* The financial crisis of 2008?
* How did your actions during those two periods work out for you?

Events are neither good nor bad. *“A rising stock market can be a <u>bad thing</u>. A falling stock market can be a <u>good thing</u>.”* What?? Read the previous two sentences again. Sounds crazy. That must be wrong. How can the rapidly growing stock market like the late 1990s be a bad thing? How can the market crash of 2008 and First Quarter 2009 be a good thing?

In my book, <u>Rewriting Your Financial Narrative</u>, in chapter 4, I propose that:
E + R = O
I am proposing that ALL events are neutral. An event is neither good nor bad. It is your reaction or response to any event that impacts your outcome either positively or negatively. Allow me two examples.

If your reaction to the events of financial crisis/ mortgage / bank meltdown of 2008 and Q1 2009, was to sell everything and wait for things to look and feel better based upon what you are getting from media, your outcome was probably not very good. You bought high (on enthusiasm and “good news”) only to sell low (on fear and bad news). And today, in all likelihood you may be worse off than had you done nothing.

However, what if you had been buying stocks even in small increments and not selling throughout 2008 and into 2009 as the markets were declining? Your outcome could perhaps have been very different.

Same event. Two different responses. Two very different outcomes.

Example #2 is the exploding growth of "large-cap growth stocks" during the late- 1990s and into 2000. This period is commonly re-ferred to as the Dot.com bubble as many technology companies were coming to market and "all things techie" were considered to be the future and therefore good. This is the "event."

Reaction #1: After listening to neighbors, co-workers and relatives brag about all the money they are making (25, 35, even 50%) on the stocks they are buying, you take the plunge. You are convinced that diversification is dumb; only for losers; and is only holding you back. You dump all your other investments and put your money into three or four "hot tech stocks" or the tech-focused mutual fund in your 401(k). Then in three consecutive years ('00 through '02), the tech sector is down 38, 25, and 37%.

Reaction #2: You maintain your plan with a diversified portfolio and rebalance annually to sell some of the rapidly growing tech stocks as they continue to gain value and diversify to other market sectors and even bonds. Then after the "tech-wreck, terrorist attack, and the market fallout from Worldcom and Enron, you con-tinue to rebalance annually to align your portfolio with your finan-cial goals.

Same event. Two different reactions. Two different outcomes.

Your financial advisor's job is guide you through big-time scary /emotional events and keep you on the road to your financial priori-ties. Call my office if you have questions, comments, fears, or aspi-rations not being met.

Risk is not knowing what you are doing. --- Warren Buffet

(1) The S&P 500 is an index to reflect the value of stocks and the stock market. You cannot invest directly in the index. Past performance is neither an indication or prediction of future

Fred Wollman earned his Certified Financial Planner "CFP®" professional credential in 1984 and the Master Planner Advanced Studies "MPAS®" designation in 2015. He holds securities registrations 7, 63 and 24. He is registered in California, Arizona, South Dakota, Colorado, Minnesota, Texas, Virginia, Washington, Oregon, Florida, Tennessee and Pennsylvania in addition to holding a California life and disability insurance license. From 1987 through 1990 Fred taught the CFP classes to aspiring financial professionals at San Diego State University.

He is on the board of the Valley Center Trails Association, ECOLife Conservation, and the Hidden Valley Kiwanis Club.

Fred and his wife of thirty-six years, Kathy, live in Valley Center, CA with two cats, a dog and two horses.

Fred spends his down time relaxing with yoga, tai chi, riding horses and when he can get really away, backpacking the Anza Borrego Desert, Mt. San Jacinto or the California Sierra Nevada Mountains .