TIMELESS ADVICE

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To say the least, yesterday was an interesting day. Overseas markets tanked on Sunday night. Because of the Monday holiday, we had several days advance warning of the coming market meltdown; the impending doom trumpeted every half hour courtesy of Fox News, CNN, and CNBC. I started fielding phone calls Monday afternoon and by the time Tuesday morning broke, the futures pointed to a 600 point drop for the Dow at the open. An unexpected three quarters of a percent drop by Mr. Bernanke helped stem the panic, and the losses for the day were nothing out of the ordinary. But the selling started again on Wednesday and by 1:00 p.m., all markets had posted substantial losses only to end up sharply higher.

So what is going on? Forgive the analogy, but when we get toxins in our systems, our body will often run a fever to right itself. The same holds true for the financial markets. Corrections – and even bear markets – rid the system of toxins. And right now we have a number of them that need to be worked out. The most troublesome are the worthless mortgages in the eye of the subprime debacle. These defaulting mortgages, along with the exotic derivatives written off them, have exposed carelessness, greed, and slipshod practices throughout our financial system. Consequences have spread to home prices, bond insurers, banks, and brokerage firms. In turn, consumer confidence, the dollar, and our national economy are paying the price. The stock market is simply "sweating out" the toxins in the system.

So how long will it last? Everyone knows that a fever has to run its course. However, you can take aspirin to make you more comfortable. Yesterday's rate cut was the equivalent of swallowing three aspirin. Unfortunately, the threat of inflation means Dr. Ben's bottle is probably empty, and the fever is back today. In my opinion, it's going to take some time to right the system. Fortunately for investors, the stock market typically bottoms well before the official end of a recession. These are simply normal cycles that clear excesses and pave the way for future gains. Attempts to shorten the cycle often prolong the suffering. That's why I'm against the stimulus package and proposed bailouts that will also serve to create "moral hazard". Those who make poor choices must learn lessons, and right now the stock market is serving as the teacher.

So what should you be doing? If you are nervous, one of the most constructive things you can do is get a journal and detail how you are feeling. Imagine if you could read today how you felt in 1987 on "Black Monday", or during the Savings & Loan Crisis when the market was dropping and banks were failing at the rate of 2 per day. Of course there was the collapse of the Russian Ruble, overseas stocks, and Long Term Capital Management in 1998. You'd probably have some interesting entries in the Fall of 2002 at the bottom of three years of substantial market losses. Through it all, most investors who "stayed the course" made money and reached new highs over time. The next crisis is always around the corner. The business cycle hasn't been repealed. A reminder of making it through this difficult experience could make it easier for you next time!

Should you be making any changes to your holdings? Possibly, but not where you might expect. Although it's normal to focus on equity losses in volatile times, the gains in the bond market the past few days have been historic. If you are holding individual treasuries, or even some long bond funds, now is the time to look forward and possibly lock gains. Fixed income investing will become more challenging as we go forward with lower rates on CD's and bonds. Just realize that planning opportunities abound - from refinancing debt - to making IRA contributions now - to timing your retirement (lower interest rates can mean higher lump sums for some people).

It would be a mistake to think that yesterday's 631 point whiplash rally signals the end of this challenging market period. Regardless of what happened yesterday, or what happens tomorrow, the patient is still sick and will be much healthier in the long run if he stays down for awhile. I'd liken it to the flu - we've all had a time where we felt great and pushed it, only to land back in bed the next day. For clients, I'm right at your side with cold towels and chicken soup to make you as comfortable as possible. It's where I've been the past 21 years, and I've got the journal to prove it! Thank heaven you're not dealing with the 27 year old "kid" who was a year in the business helping his 20 clients panic back in 1987. I've learned from every downturn and setback since, and my reaction and advice has improved with each one. There truly is no substitute for experience. Times like these help make us who we are. When the market reaches new highs some time from now, this will all be a distant memory. Make the most of each and every day until then.

P.S. CD's of my opening presentation and 2 bucket approach talk from Saturday's Financial Fair are at the production studio and will be available late next week ……. Don't forget to listen Sunday Mornings on 1180 WHAM – Terry, Tim, and I will be live at 7 again this Sunday! If you're far away you can listen through the WHAM website …. Share us with a friend! This newsletter, as well as an updated photo gallery can be found at our website www.horizongroup3600.com …… Alaska anyone? We are considering a special guided cruise for clients in Summer 2009 on Holland America Cruise Lines. We will be negotiating a group rate and exclusive activities. We need preliminary indications of interest – please call Carrie if you are curious ..…… Client Appreciation is *tentatively* scheduled for September 19th. We're waiting on a confirmation from Letchworth Park!