QUICK MARKET UPDATE

Fear, Greed and Exhaustion

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Investment strategists have long argued as to the underlying drivers of market trends. One side of the argument has focused on microeconomic factors such as the level of company earnings, the growth rate in company earnings, leverage ratios, and a barrage of other company level details. The counterpoint has focused on macroeconomic factors such as the level of interest rates, politics, consumer confidence, and more. What these theories have missed is that, ultimately, humans are making the decisions to buy or sell, and often those decisions are driven by emotions. As a group, if we believe we can make money, we will be greedy and behave in a way that likely will boost markets. But much like a swarm of birds that turns in unison, if we sense danger we get fearful and will behave in a manner that will likely make markets fall.

To oversimplify – markets are driven by the fear and greed cycles of investors.

The length of a fear to greed cycle can largely be attributed to the information available and the speed at which that information is disseminated. Two decades ago, the speed of information was still relatively slow. Brokers and analysts had to call one another to spread news. We read about yesterday's important news in today's morning newspaper. News from China may have taken a week to make the rounds. The dissemination of information was inefficient by today's standards.

Today, we are bombarded with news from all sides. In an effort to be the first to report on an event, the endless media stream tracks the daily movement of the market, attributing the ups and downs to a single factor, until that factor changes, often within the hour. "Dow plummets on Europe…." Hours later on the same outlet, "Dow rises on Europe." Turn on a news channel and there can be three to four scrolling tickers at the bottom of the screen, each covering a different segment of the market. At the same time, there probably is a live interview with three split screen shots of experts with differing opinions and a rotating image of the current level of the Dow, the S&P 500, and the NASDAQ.

The efficiency of news dissemination means the fear and greed cycle has shortened to a daily cycle, and sometimes an intra-day or even intra-hour cycle. For many investors, the constant cycle has turned into exhaustion and a feeling of not knowing what to do. And, being unable to figure out what to do, they choose the easy way out … they do nothing.

We believe the best way to combat the financial exhaustion and feeling of not knowing what to do is to take action. Take control. Prioritize what is important and work toward those goals. At a minimum, we recommend clients start with the steps on the next page.

1. Plan Your Work, Then … see number 5

A good place to start is the identification of the key wealth management issues you and your family will face. Your Advisor can help by defining the 8 Wealth Management Issues®, eliminating the ones that do not currently apply, helping prioritize the issues and design a plan to take action. Not all of the wealth management issues apply to every family. However, we find families to be vulnerable in at least two to three of the 8 Wealth Management Issues when they are introduced.

2. What is Your Number?

Cash management is addressed as one of the 8 Wealth Management Issues. Your "number" is the amount you should have available in cash, short term line of credit or liquid investments. How much do you need to have available in the event that the market turns down or you suffer a loss of income? A good rule of thumb is to have between six months to one year of living expenses available. Depending on your own circumstances, more or less could be appropriate. Having enough available to meet your short term needs should be a high priority issue that should be addressed prior to talking about where to invest, how to plan for college or retirement, or other goals. Take care of your needs today, and then plan for tomorrow.

3. What is Your Asset Location?

How should your accounts be titled? Should you open an IRA? How much should you contribute to your 401(k)? Should you consider a trust? Should money designated for a college fund be owned by the parent or the child? What about 529 plans? Your Advisor can help you understand how different ownership types and tax treatments should be considered when allocating assets toward an investment plan. In addition, they can also discuss the benefits of consolidating different accounts to potentially simplify your finances.

4. What is Your Asset Allocation?

Not only has the speed and complexity of information increased, but investors' ability to invest has become more complex with the advent of different types of investments covering different styles of investments. Knowing what you own and how investments interrelate to each other can be a puzzle by itself. We believe investors may benefit from owning a diversified portfolio of mutual fund and/or Exchange-Traded Funds that rebalance with discipline. Your Advisor can help you determine an appropriate mix of asset classes and see how they're currently allocated relative to that mix. This process may help reduce overlap between investments and managers, as well as to mitigate unintended risks in the portfolio.

5. … Work Your Plan!

Creating a plan is only the first step. It is a completely worthless step unless you follow through – you have to work your plan. That means working to implement the decisions you have made, and meeting occasionally to track progress. Working your plan will help you take the focus off of the daily news barrage and take action and control.

6. For the Sake of Your Sanity … Escape!

Turn off the television (or at least turn off the news and finance channels). Take a walk outside. Read a good book. Turn off CNNMoney.com and CNBC.com. Enjoy time with friends and family. You will likely find it helpful not only to your general health but quite possibly your financial health.

Disclosures:

The S&P 500 Index is a capitalization weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation and financial companies.

The NASDAQ Composite Index is an index of common stock and similar securities listed on the NASDAQ stock market. Since both U.S. and non-U.S. companies are listed on the NASDAQ stock market, the index is not exclusively a U.S. index.

The Dow Jones Industrial Average is a price weighted index covering 30 large and well-known U.S. companies. The index covers all industries with the exception of Transportation and Utilities.

An investment cannot be made directly into an index

Investments are subject to market risks including the potential loss of principal invested.

529 Plans are subject to certain restrictions. By investing in a plan outside your state residence, you may lose available state tax benefits. 529 plans are subject to enrollment, maintenance, administration/management fees & expenses. Make sure you understand your state tax laws to get the most from your plan. If you make a withdrawal for any other reason, the earnings portion of the withdrawal will be subject to both states and federal income tax & a 10% federal tax penalty. As with any investment, it's important to fully consider the plan's objectives, risks, charges and expenses before investing.

Exchange-traded funds (ETFs), as the name implies, are funds that trade like stocks. A single ETF often attempts to mirror an entire index such as the S&P 500, Dow Jones Industrial Average, or Nasdaq Composite Index; an entire sector of the equities market such as large caps, small caps, growth stocks or value stocks; or whole industries such as technology, energy or biotechnology. In addition, specialized ETFs can cover market niches such as gold, precious metals or REITs, and they can even cover other asset classes like fixed income. Investments that are concentrated in a specific region, sector or industry may be subject to a higher degree of market risk than investments that are more diversified. ETFs are traded like stocks or bonds and offer liquidity throughout the day as opposed to the end-of-day pricing system for mutual funds.

Mutual Funds and Exchange-traded funds (ETFs) are sold by prospectus. Please consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus, which contains this and other information, can be obtained by calling your Advisor. Read it carefully before you invest.

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