So What Do We Do Now?

For any person that's concluded that this isn't the time to invest in the financial markets, here's a question: when will be the time?

With 2008 behind us, it's safe to say that 2008 was the stock market's worst performance since 1931. The Dow Jones industrial Average fell 33.8% in 2009, and many broader stock indices fared even worse. It's easy to embrace caution looking back at what happened. And with the global economy still mired in a recession, even the investment gurus that were least injured by last year's sell-off, aren't promising quick relief and few are willing to call the recent stock market rally a sure sign that we're out of trouble.

Nevertheless, the optimists among us share a widespread belief that the U.S. economy will indeed correct itself. And if you accept this, staying out of the financial markets until the upswing is obvious – trying to time the market in other words – will likely prove a mistake for the long-term investor.

Unless our entire system of capitalism is going to fail, now is a great opportunity to invest and buy assets at deeply discounted prices that haven't been seen in years. However to take advantage of the opportunity will take courage and patience since the economy is certainly going to have many starts and stops as it returns to financial well being.

The big risk today is not being invested, and owning equities. All too often it's easy to invest with a look to the past, rather than anticipating the direction the economy will be taking two or three quarters into the future. There's a lot of data that supports that we're at least half way through this recession, and that as with almost all bear markets caused by recessions, the market will have some dramatic rallies even before this recession is officially over. And quite often those rallies happen quickly and occur over a short period of time.

A new book by Ric Edelman, a NEW YORK TIMES bestselling author (disclaimer – Ric is associated with SMH Capital) points out just how short the periods of time can be during which the market makes its gains. In RESCUE YOUR MONEY, Ric researched the markets and discovered and shared the following:

For the S&P index
In 2007 the entire gain for the year – 5.5% - happened in 1 week
In 2006 the entire gain for the year – 13.6% - happened in 18 weeks.
In 2005 the entire gain for the year – 3 % - happened in 8 weeks.
In 2004 the entire gain for the year – 10.9% - happened in 7 weeks.
In 2003 the largest part of the 28.7% return – 19% happened in 16 weeks
In 1999 the entire gain for the year – 21.1% - happened in just 22 weeks.

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In case you're missing the point, it's common for the stock market to jump significantly in short periods of time and remain stagnant for long periods. In recent history witness the Dow's 21% climb from March 10 through March 26th, a span of just 13 trading days.

So the challenge is being able to predict when these spurts are going to occur.

Can you?

Well, we've not found anyone that so far can reliably do it, so one of the best solutions is to stay invested!

Reasons to Stay Invested or Invest

There are signs, beyond the recent rallies, that the economy and the financial markets are making some progress toward recovery. Spreads between the yields on corporate and U.S. Treasury bonds have begun to narrow, suggesting that investors are becoming more comfortable with taking on some risk. Even the housing market in the U.S. – currently ground zero focus for most of us as the cause for our economic plight – has begun to show some signs of life.

There are lessons to be learned from the past 18 months. One of the most significant is that diversifying your investment portfolio, while critical to success long-term, can't entirely insulate you from a systemic global meltdown. In our global economy today, the correlation between international investments and domestic investments is much closer. Many who invested internationally were hit harder than those invested just in domestic U.S. stocks.

The other important lesson was about leverage. In times of real economic distress, leverage, in the form of excess borrowing, can be life threatening. Many of the companies hardest hit by the 2008 recession were financial institutions that issued too many risky loans and underwrote too many risky derivatives contracts. Too much debt when times turn tough is a killer. This happened in the public sector too, with the housing market particularly with way too many people buying homes they couldn't afford unless the market continued to go up and they could continue to borrow cheaply to "afford" the homes they really couldn't afford to begin with.

With these lessons in mind, what are some of the things we can do to get back on the road to our personal recovery with brighter times ahead?

So What To Do?

First, Reduce Expensive Debt. Too many of us overextended ourselves during the past decade with credit cards and other debt, and this type of debt is going to get more expensive as time goes on. Even before

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saving more for retirement or investing more in the market you should develop a plan to reduce this expensive debt. One good idea suggested is to take advantage of lower gas prices. One year ago gas was $4 a gallon and today in most places is less than half that. Take the extra and use it to reduce your credit card debt.

Get On a Budget. Thrift is back in style. This means getting on a budget, measuring what you spend and looking for ways to save money. Use the savings to reduce the debt from the previous topic.

Have An Investment Strategy. Talk with your advisor and remember that investing, at its core, is about common sense and recognition there's no free lunch. Eliminating high-cost debt and getting on a budget is important. And continuing to save and invest for retirement is critical. Being prudent, saving money, and investing wisely - building a highly diversified portfolio, buying low and selling high through strategic planning and maintaining a long-term investment horizon are the keys to successful investing.

And finally, the goal of investing isn't just about putting numbers in the bank and dealing with yield curves and risk/return calculations. It's about the reasons we all invest – financial security and financial freedom which by one definition is the ability to do what you want, when you want, with whom you want without worrying how you're going to pay for it.

Looking forward to the future.

Thank you.

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