WEST SIDE NEWS

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Your Money, Your Business

By Wayne Calvert

Don't Let Market Swings Overwhelm You

Historically, the equity and fixed income markets have moved through periods of elation and fear. We experienced a period of elation for many years, then we quickly moved into a period of fear in the late third quarter and fourth quarter of 2008. Markets became extremely volatile from day to day, and even hour to hour. When the dust settled, the Dow Jones Industrial average was down 33.8 percent for 2008, its worst return since 1931. Broader stock market indices and most equity mutual funds had even lower returns, not just in the United States, but around the world: the Dow Jones Global Index was down 42.9 percent. Because of this dramatic correction, the price earnings ratio of the stock market is back to the lows of the early 1980s.

These are difficult times, no doubt about it. But it is not the end of the world. We live in the greatest country on earth and markets will recover. In fact, if you have at least a three- to five-year time frame, the current environment could be a good time to accumulate equities. Most good quality companies are selling at reasonable valuations, and a lot of these companies also pay very nice dividends and have a history of growing their dividends.

A good strategy is key to rebuilding your portfolio in the coming years. In fact, having a sound investment strategy may have never been more important in your lifetime.

Your strategy should be based on a realistic assessment of the risk in your portfolio, followed by steps to mitigate risk in these volatile times. Asset allocation and stock diversification are central to managing risk. By asset allocation, we mean balancing the types of investment vehicles – such as stocks, bonds, real estate, cash, etc. – in your portfolio. By stock diversification, we mean diversifying by style – such as large cap, small cap, international, etc. – and diversifying by company. The latter is important to assuring that a significant portion of your portfolio is not dependent upon the performance of a few companies, no matter how "blue chip" they may seem to be. Recent economic swings have demonstrated that blue chip stocks, such as AIG, are not immune from dramatic decline in value. The same logic tells us that it is not wise to concentrate in one or two industries.

I suspect the market will continue to be volatile during 2009, hopefully not to the extent of the fourth quarter of 2008, but do not let periods of fear and elation overwhelm you. Have a good long term plan and periodically review it with your professional manager to make sure that market changes have not put your portfolio out of balance. Then be patient in adding to your equity holdings – do not try to win back your losses quickly by betting on risky investments. This is a time to mitigate risk, not exacerbate it. By following this conservative and thoughtful approach, I believe you will be well rewarded over the next three to five years and beyond.

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