Buck Financial Advisors, LLC

"Helping you Determine your Financial Future"

When Recession Fears Surface, Check Your Plan

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It's been a wild first quarter on Wall Street. The Federal Reserve Board has responded to world pressure and swooped in with rate cuts to put a floor on losses. Some days things seemed to be stabilizing. But what about tomorrow? And then next week, and next quarter?

If this question fills you with worry, that's OK. When worldwide market worries surface, it's easy to get scared. It's particularly easy when we've had such major market turmoil as the U.S. mortgage debacle and the lingering disarray in the banking and investment industries.

But sudden action is usually a mistake. In the late 1980s, Harvard psychologist Paul Andreassen made news with a research project finding that people who listened to market news actually made lower returns. Why? Because those who sold – or bought – during a market swing probably found a day later that the market was really running on hype, not fundamentals.

You pay a financial planner to devise a financial strategy that matches your risk tolerance and long-term financial goals. No, there is absolutely no way to guarantee that you'll never lose money. But if a plan truly matches you, the market noise shouldn't make a difference, particularly if you don't need the money *today*. A plan gives you the courage to see this business cycle through.

So the next time world markets spike or slide, ask yourself:

What's my plan? If you've worked with a Certified Financial Planner™ professional, you should be able to articulate your goals or refer to an investment philosophy you made together. Much of the riskiest investing, overbuying and panic selling during the late 1990s and early 2000s could have been avoided if individual investors had sought advice for achieving *long-term* specific goals such as a first home, retirement or a college education.

What's my risk tolerance? Does your portfolio allow you to sleep at night? You should have discussed a number of questions about how you handle risk and what your expectations were about investment returns. You might have had to do this more than once if your risk tolerance was low but your investment expectations were high – low-risk investors can't expect the highest returns.

Am I prepared to stay invested? We all remember the "Tech Wreck" of 2000. At the worst of that downturn, investors bailed out of the stock market or drastically cut back. In reality, they missed out on stock market gains during the early stages of recovery, and that's costly in the long run. Some investors looking for that late 20th century investment high also got into the real estate market, and they perhaps learned a similar lesson when that market started heading south two years ago.

In 2004, SEI Investments studied 12 bear markets since World War II. Investors who either stayed in the market through its bottom, or were fortunate to enter at the bottom, saw the S&P 500 gain an average of 32.5 percent (not counting dividends) during the first year of recovery. Investors who missed even just the first week of recovery saw their gains that first year slide to 24.3 percent. Those who waited three months before getting back in gained only 14.8 percent.

Am I diversified? The NASDAQ lost 39 percent of its value just in 2001, and another 21 percent in 2002. Meanwhile, real estate investment trusts, which performed poorly in 1998 and 1999 when stocks were booming, had banner years in 2000 and 2001, performed so-so in 2002, and had an excellent 2003. Bonds also returned well during the bear market. Your planner, based on your risk profile, should have you in diversified investments that fit your goals.

If you're worried, there's no reason why you shouldn't call your planner to calm your nerves and confirm what you're doing. And if you've never talked to a planner before, now might be a pretty good time to start.

Buck Financial Advisors provides independent, commission-free financial advice for people from all walks of life. When you or someone you know needs help, Buck Financial Advisors is there. See www.buckfinancial.com for more information.