

Year End Moves!

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This is the time of the year that you start to think of year-end planning. With the market continuing to be volatile, below are 5 things to do before the end of the year.

First, check your cash position. If you don't have 3-6 months of liquid assets you can draw on in an emergency, re-double your efforts to build up that position. This fund can not only keep you safe from unexpected expenses, but it will also bring you peace of mind when you listen to the news reports about how bad everything is.

If you are retired, you should have enough fixed income to cover the gap between your guaranteed income, pension and Social Security, and your basic living expenses, for a period of five years. You don't want to be forced to sell stock when you need cash.

Second, check your risk tolerance. Has the recent market action made you sick, or kept you awake at night? If so, maybe you are too heavily invested in stocks. Undoubtedly your allocation has changed if you haven't made adjustments over the course of the year. If you had a 70% stock portfolio last January, you are closer to 55% now.

Third, if you can find the courage to rebalance, increase the stock portion of your portfolio. Do it all at once. Do a little every month; it doesn't matter how, just do it. If you are still contributing to your retirement plans, allocate it all to the stock funds. If not, move a portion every month.

Fourth, if you have a taxable portfolio you undoubtedly have some capital losses. If so make sure you sell enough stocks to generate a net loss of \$3,000 for 2008. That is the maximum amount you can deduct from regular income after you have offset any capital gains. I sell and buy at the same time, so I am not out of the market. You have to buy something that is different than what you sell. For example sell the S&P 500 fund, and buy a large cap blend fund.

Fifth, establish your own investment disciplines, carefully considering your own strengths and weaknesses. Put them in writing, and keep them, so you can check them whenever you are making an investment move. Change them as your personal situation changes, but never when your emotions are driving you.

Nervous? You are not alone; since World War II, our economy has had 10 recessions. The markets bottomed 55% of the way through, and the S&P500 performance 12 months from the market bottom has averaged 37%. Historically now is a good time to buy, it may get better, but the best time may have past.

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Charles Buck CFP®

"When asked what the market will do? **J. P. Morgan** replied;

"It will fluctuate."

ASK A CFP® PROFESSIONAL!

Last month, I had the opportunity to hear Steven Leuthold, CIO of the Leuthold Group, speak at our Financial Planning meeting. He turned bullish on the markets in September, a little early, but he shared some history with us you might find interesting. Consumer Confidence has spiked down four times in the last 49 years, each time the market was at a major bottom. The last time we saw money moving out of mutual funds at today's pace was the end of 2002, a major market bottom.

When you have price earning (PE) ratios at this level, 13.5, the median 10 year annual total return compound rate of return was 15.2%. The message is "buying the stock market at historically high PE ratios, greater than 19, produces significantly lower long-term performance."

Every market cycle is different; but there are two things that drive the market, Fear and Greed, and they haven't changed. They are also the two things that block our long-term investing success.