

The Panic of 2008

The ongoing events in the financial markets undoubtedly have many of you confused, angry and worried. For the last month, people have been barraged with news of the credit crisis, falling asset values, credit default swaps, auction rate preferred scandals, layoffs and the list goes on. The markets are in a state of panic as uncertainty increases. The only safe haven has been FDIC insured bank deposits and U.S. Treasury Deposits. We want to take this opportunity to sort through all this mess, and give you some perspective on this ongoing crisis.

What does this all mean to you?

How the current financial environment affects you depends, of course, on your situation. As responsible hardworking people, most of you are in a position where excess debt is a burden. If you are working and continue to save for retirement and other goals, you should continue to focus on your job and your families and continue to save in a diversified portfolio, including cash equivalents, bonds and stocks. Your mix will be determined by your timeframe, financial situation and temperament.

We are in the midst of the steepest market decline in 70 years so we are all shaken by the huge drops in our account values. October will likely be the worst month this year. Many of those who are selling into this market are doing so because they have to. Hedge funds and other investors have borrowed money to make their investments. As asset values fall, they have to raise cash to cover the loans. They sell indiscriminately which leads others to panic and adds to the selling.

We have to step back and look at our portfolios in an objective manor. We have to review the basis questions:

- ◇ Is my asset allocation consistent with my goals?
- ◇ Would I buy an investment today?
- ◇ What are my risks going forward?

Shifts in your portfolios may be warranted, but you do not have to accomplish the entire shift today. By taking a systematic and disciplined approach to investing, you will fare much better in the long run. Financial and business decisions that are made because of emotion are rarely good decisions.

What should you do with your money?

This answer depends largely on your timeframe and the ultimate use for the funds. In general, if you need your money in:

- ◇ 0-3 years FDIC insured money markets or CD's are your safest choices
- 3-10 years A conservative mix of intermediate term fixed income and dividend paying stocks
- ◇ 10+ years A diversified mix of investments.

What looks like a good value today?

Tax free municipal bonds
High quality corporate bonds
Dividend paying stocks with a safe and
TIPS – Treasury Inflation Protected Securities

There is some bright news out there which should help as the economy moves forward.

Energy and food prices are falling – gasoline and heating prices have come down significantly and food prices are beginning to fall. This would ease some of the pressure on individuals, businesses and governments here in the U.S.

The rate of decline of housing prices is slowing - Housing prices are behaving differently in different areas of the county, but overall the rate of decline of prices is falling. Also affordability is increasing. In addition, there is increasing pressure on lenders to offer concessions to keep people in their homes and avoid foreclosure. We do not expect a rebound in prices, however, these signs point to more stable prices in the coming months.

The credit markets are easing up. – In September, the credit markets completely froze up. Banks who are in the business of lending, were no longer lending, to anyone. Companies and governments that rely on debt financing to fund operations were shut out. Everyone was hoarding what cash they had. The Federal bailout plan was targeted to address this credit freeze up. Funds from this program are just now beginning to flow. Credit is still certainly very tight, but money is beginning to flow again. These processes take time, but should continue to gradually improve.

Politicians are talking about investments in infrastructure, energy and basic research. – For the last 30 years, individuals, companies and governments have increasingly focused on short term returns. We have ignored many of the long term structural issues facing our society in exchange for the immediate gratification of material wealth and status, short term profits and votes.

It is unfortunate that it took a crisis situation to prove the error of this thinking, but hopefully, we can make those needed investments to improve the future.

Companies are moving fast to adjust. Companies are moving fast to strengthen their balance sheets and cut costs. Entities that respond quickly will be in a better position to survive the downturn and profit from a future recovery.

What comes next?

We are no doubt in a global recession that will like last well into next year. Companies are taking immediate action to this slowdown by cutting production, costs and payrolls. Households are also holding back and conserving cash. It will no doubt be a difficult year for the economy, however, the markets are always looking forward. The slowdown will not last forever and the markets typically lead the economy. By making rational decisions and keeping an eye on the long term we will all benefit. It was shortsightedness and greed that caused many of the imbalances the markets are now unwinding. At this point fear is compounding the problems.

Markets have historically overshot their underlying value on both the upside and the downside. This cycle will likely be no different. We never know when the tops and bottoms will occur, but we can be smart about our decisions and not give into the panic.

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