A Cure for Financial Motion Sickness

There is no question investors have been on a wild ride. However, even though the markets' roller coaster effects that began last year may seem to signal disaster, it is important to remember that volatility is the norm for financial markets.

What we are seeing is actually an indication that we are returning to a "business as usual" market cycle. Nevertheless, it is understandable that you may be worried about your investments. The temptation may be to adjust your portfolio based on daily financial reports.

Do not.

- Failing stock prices – not economic fundamentals – have often tempted investors to panic-sell.

- The market's best and worst days have often occurred in a relatively short period.

When I was a child I watched a nature documentary about lemmings; an animal with a peculiar habit. This creature would suddenly move en mass with fellow lemmings, leaping off a cliff to its death (apparently, suicide was its form of population control).

Panic selling, often prompted by declining stock prices, can produce "lemming-like" results. During 2007, four of the five worst days of the S&P 500 Index (with an average decline of - 2.80% per day) occurred in August and November; and, four of the five best market days of the S&P 500 Index (with an average gain of 2.66% per day) occurred in August and November.

Certain days may stick in your memory. For some people, October 19, 1987, the market's biggest one-day decline is such a day. On that Monday, the loss for the Dow Jones Industrial Average was a staggering

22.6%! Yale University conducted a survey of institutional and individual investors following the crash. The survey asked if economic fundamentals or investor psychology was more responsible for the crash. Two-thirds believed investor psychology was the driving cause.

The lesson is that you can cure financial motion sickness by keeping your focus on your goals and not the daily markets. Leave that to the lemmings.

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