

Toto, We're Not in Kansas Anymore

The slowdown in world economies, combined with a global credit crisis, bankrupt financial institutions and virtually unprecedented government intervention has left the markets (people) reeling and looking for a bottom. I know it doesn't feel great to hear you have lost less than the markets, because losses of this size simply hurt.

There is no possible way to determine where a bottom is with this market, but the issue is not how far it will fall, but how high it will bounce thereafter. Let me outline what is going on; what is real, what is permanent, and what is temporary.

The credit markets have seized up. This is real and it is temporary. Almost all large public and private companies issue commercial paper – short term debt instruments that mature in less than 270 days to help meet their short-term liabilities. This debit in the past has been very liquid and quite secure. It is what has been owned by most money market funds to help them give savers better returns than they would get from owning Treasuries. The Fed and the Treasury are trying to create an avenue of liquidity for these instruments. This part of the plan is what will (eventually) hit Main Street. The reason this is temporary is because it is too significant to not be worked out. Everything from hospital payrolls to inventory purchases are dependent upon this mechanism, so it will be fixed.

Wall Street is broken. This is real and it is permanent. Some of the largest investments banks were using a tremendous amount of leverage on opaque instruments that create even more leverage. Regulation will inevitably make it harder to make as much as they did for contributing as little as they had. This will inevitably change what types of investments will make sense going forward. Less exotic will be back in vogue.

Fear and greed own the day. This is real and it is permanent. Every day stock prices are determined by sellers – who either need to raise money or are convinced their stocks are going down and buyers – who believe they are getting bargains on investments, will go up. In periods of turmoil, there are far more sellers than buyers. People get scared their investments are going to fall forever and sell (often at the worst possible times). When markets are going up, people end up buying at the worst possible time. No one is ever completely rational, but successful investors tend to be less scared and less greedy than unsuccessful ones.

People are hurting. This is real and it is temporary. Jobs have been lost and more jobs will be lost. People who piled on debt will have tremendous problems working their way out of the hole they dug for themselves. The stress of seeing investments drop can add to the stress each of us feel in raising a family, or work, or tending to our aging parents.

But the one universal truth of these times is impermanence. Nothing lasts forever. Lower interest rates will eventually lead to a housing rebound. Enhanced credit will help businesses expand and hire. During times like this, don't extrapolate what is happening today to 15 years down the road. Focus on the things you can control. If you have a well-reasoned strategy and plan in place, you will be fine. I have worked with countless clients over two decades and have helped them retire comfortably, send their kids through school, negotiate the sales of their businesses and give to charity. We have seen many types of markets during these times and through solid financial planning and intellectually sound asset management we have weathered the tough times. You can do so as well.

Life brings change. Sometimes it happens so slowly, we do not see it until time passes and we pause to reflect. However, change can happen so swiftly, and dramatically it feels like we've left Kansas and landed in Oz.

I know we all have the brains to think intelligently, the hearts to care and the courage to embrace these changes. Dorothy (and Toto, too) came to understand that "Over the rainbow" isn't someplace better; it is here and it is now. After all, "There's No Place Like Home".