

What do you think you know? >

Executive Summary:

A little advice for the skittish investor. Understand the markets. Be patient. Diversify.

By Andy Hudick

For the past few months the financial markets have experienced huge price swings with some assets declining in price by large amounts in one day only to increase in value by a similar amount the next day. It is hard not to get caught up in current events. This difficulty is compounded by media outlets constantly offering speculation, rumor and their version of the "facts."

As you watch a financial reporter offer some financial facts and opinions, have you ever wondered whether the reporter actually had any skin in the game? Do these folks have equity investments? Do they own bonds? Are they investors offering investment advice or just financial reporters creating a buzz? I have often suspected many of them have few investments and one prominent talking head says that she has all of her money in one asset class: bonds.

Several months ago oil prices were very high and many news reporters were offering negative comments about the profits being made by oil companies. It was suggested that this was a bad result and somehow these companies were wrong to be making a profit. Congress was talking about "capping profits."

Note what happened to many financial institutions in the past few months as they stopped making profits. Our economy needs our public companies to make a profit. Absent a profit, these companies will not be in business. As we have discovered recently, if these companies are not in business, the effect on you and me can be profound. The profits, or lack of profits, impact each of us in our pension plans, other investments and even our daily lives.

If you are a speculator, then you should have enjoyed the past few months of activity. If you are a long-term investor then you need to focus on the real world that lies beneath the flow of data and the noise being created.

A long-term investor should remember a few of the more challenging moments in the past 25 years:

- The high tax rates of the early 1980s;
- Creation of tax shelters that inflated real estate prices and the subsequent collapse (and government bailout) of the savings and loans;
- The high-flying stock market fueled by the Internet and dot.com companies that imploded in early 2000;
- And most recently, the "easy credit" available to those with no ability to pay that has helped create our current financial challenge.

The emotions of the moment can distract us if we do not have a plan. It is impossible to predict how markets will move at any time due (in part) to the frenzy created by those feeding us information that prey on our emotions of fear and greed.

If you have a diversified portfolio and some patience, then stay focused on your goals, invest for the long-term and diversify away some of the risk. Do not concentrate your investments in any one stock, industry, piece of real property, or sector.

My own money is invested in our local real estate, our local industries and the broad stock and bond markets. I am experiencing some of the same discomfort you are, but I have a financial plan.

I expect the current challenge to end and the financial system to survive and the talking heads to keep talking. Consider the source before you take action. Markets ebb and flow. We need to have patience and the flow will return. 