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Weekly Financial Article for the Week of October 22, 2007

STAY THE COURSE, STAY INVESTED

Don't let one bad Friday affect your financial outlook.

The headlines said “Bleak Friday” ... in a nod to history as well as the behavior of the Dow Jones Industrial Average. October 19, 2007 was not as bad as October 19, 1987 for Wall Street investors, but the Dow did plunge 366.94 for the day. You may be wondering ...

- 1) Why?
- 2) Will it happen again, or will the rest of the quarter resemble the winning weeks we recently had?
- 3) Is it time for an attitude adjustment?

It is a good day to address those three questions.

Why the markets stumbled. The short answer comes down to two factors: mediocre earnings reports and soaring oil prices. You had Citibank, Washington Mutual, Wachovia and Bank of America reporting big drops in net income. You had some industrial blue-chips like Honeywell and 3M and Caterpillar revealing subpar 3Q data; Caterpillar's CFO, Dave Burritt, told a Reuters correspondent that “we've put [the chance of a] recession in probably a 50-50 type range.”¹ With oil breaking through the \$90 ceiling for an instant, uncertainty along the Turkey-Iraq border, and the controversy over Iran and its nuclear program, all the factors for a market retreat were in place.

In addition, there was a huge rise in unemployment claims this week. Also, you had the gloomy comments from Ben Bernanke and Henry Paulson. Both publicly stated their beliefs that the housing slump would persist into 2008. Most of us aren't imagining anything different, but when those opinions come from the mouths of opinion leaders, the market reacts.

Will it happen again, or will things improve? Let's face it ... no one can predict the future, not even the near future. As much as we'd like to be clairvoyant, we don't know what the next week or month will bring for investors. We do know there will be some major earnings reports out next week - Merrill Lynch is the big one, coming out on Wednesday. So far, many 3Q earnings reports have been disappointing. We know that Turkey may decide to take military action along Iraq's northern border, if diplomacy can't find an answer. So, yes, you might have a repeat of this week's headlines: worries about oil, diminishing earnings.

However, look at how well the markets did in the weeks before last. The mood is still essentially bullish, and the year has been a good one for stock market investors. The Federal Reserve has undeniably become more responsive to the stock markets in recent months, and as we look at the calendar, we see that the Fed has another policy meeting coming up on October 30-31. Sentiment for a rate cut is definitely strong, and the Fed may respond.

Is it time for an attitude adjustment? You know, the media tends to encourage investors to think in either/or terms - bull or bear, rally or slump. Euphoria or panic. I would urge you to look beyond all that. Keep your eye on your long-range financial objectives, not the latest headline. There will always be another “latest headline”, and if you base your investment strategy on the headlines, the chances are you will end up confused and astray from the principles that you are building wealth with.

The markets have bad days. But historically, the long-term investor has come out ahead. Look at the year-to-date performance of the indexes. We’ve had tumultuous headline after tumultuous headline, and look at the performance: the major indexes are still up between 5.8%-13% this year.² That’s a great argument for persistence and patience. Hang in there. We’ll get through this latest storm and see some sunshine again.
