

## Are We Turning the Corner Yet?

We have finally seen some positive news on the financial front, and many optimists think the stock market has hit the bottom and bounced off its low point. It's pleasant to be able to take a breather from the brutal onslaught of bad news over the past year.

Many ACA advisors have been citing the dangers of being out of the market, even when it is falling. Although it has been stressful psychologically to maintain equity positions over the past year, recent market activity shows the folly once again of trying to time the market.

For the eight bear markets that occurred in the last 50 years, the average gain for the S&P 500 in the year following the stock market low is +36.5%. We're currently in the ninth bear market of the last half century. The S&P 500's close-of-trading low point of this bear market (so far) was 677 on March 9, 2009. Through the end of April, the S&P 500 gained 29% (not counting the impact of reinvested dividends).

As our clients, you pay us to "watch your backs." So without being an outright pessimist, I think we are still in a perilous financial situation. The future of the auto industry is teetering, and the economic reality goes even deeper than that. We are restructuring our national economy to be capable of truly participating in a global economy.

Our prosperity over the past 15 years was based on a worldwide spending spree, fueled by cheap credit and over-leveraged real estate. The current governmental nostrums are designed to spur more spending, but no meaningful programs have yet addressed the banking crisis and the collapse of the real estate market. We see the impact of these issues every day in the "For Sale" and "For Lease" signs in almost every neighborhood and commercial area.

Each of you has a unique situation, so as usual the approach best suited to you depends more on what is going on *in your own life*. If the breadwinner in your family is out of work, or you have kids in college, or you are faced with disability or are retired (or hope to be soon), these circumstances—not the state of the economy—are the key factors in selecting your investment allocation. Although the stock market may look great, don't kick yourself for having missed out on the recent steep increase.

It is also foolhardy to conclude, based on a recent upturn in the markets, that you should now jump in with both feet. We may not hit bottom until 2010, and then it may take a couple of years to fully recover. Market timing is a futile waste of energy. But there may be other wise financial moves available to you.

For those of you in transitional or distressed situations, we typically advise you to maintain an extra cash cushion. If your life situation is stable and your future income stream is on track (such as through a bond ladder), dollar cost averaging into the stock market is very beneficial. If you haven't done so recently, it's probably time to review your portfolio and make adjustments as appropriate.

It may be advantageous to refinance your home mortgage at a lower rate (unless you owe more on your house than it's worth). However, jumbo mortgages (more than \$417,000) still carry very high rates, and it is seldom worthwhile to refinance those.

This experience of living through the worst economic period since the Great Depression of 80 years ago will have a lasting and positive impact on most of us. The losses will ultimately be recouped, and many people—probably more than have realized it—will be able to outlast even a continuing downturn. More importantly, it has made many of us aware that we had been frittering away money on things we didn't really value. I believe this lesson has to be relearned by each generation as we discover that our investment statements aren't the scorecard for our real wealth.

*This article was written by Bert Whitehead, MBA, JD, a leading financial advisor, author and founder of the Alliance of Cambridge Advisors (ACA). Patricia A. Konetzny is a member in good standing of ACA and currently serves on its Board of Directors. Patricia is a Certified Financial Planner® and Enrolled Agent and has been quoted for articles in the Wall Street Journal, Wall Street Journal Online, Kiplinger's Personal Finance, Fidelity Investment's Stages magazine and E-news, and Investment Advisor magazine.*

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