

2008 4th Quarter - A Light at the End of the Tunnel

It is impossible to deny that 2008 was the worst year for investments since I began advising clients. In fact the major US indices have seen their worst year since 1931¹[1]. The fourth quarter of 2008 was particularly poor with virtually every investment category falling drastically. According to Morningstar, the investment rating agency, only one of the 60 indices they monitor was positive for 2008²[2]. US stocks, foreign stocks, municipal bonds, corporate bonds and commodities all suffered losses for the year.

I do not have to go into great detail as to why there were such losses as this has already been discussed. Financial engineering, excessive risk taking, bad regulation, and improper supervision by government agencies created an environment that produced massive losses. The credit freeze, and stresses on the market, added to our unprecedented problems. Finally, to add insult to injury, the last major economic news for the year was what may be the biggest Ponzi scheme ever with Bernie Madoff suggesting his firm may have “stolen” 50 billion dollars. Is anyone’s money safe? Is any investment worth what it seems to be if we do not feel we can trust banks, brokerage firms, or money managers? Should we put our money in our mattresses and pull the covers over our heads? Some of you have even asked if you should buy gold just in case the US government loses its credit rating. Let me assure you gold is not an investment and if things get that bad, plant your garden, buy some chickens and get a fence. Thank goodness 2008 is over!

We are in a recession; what we did not know is the recession started in the first quarter of 2008 and we have already been here for a year³[3]. Job losses are significant and the unemployment rate has already hit 7.2%⁴[4]. Some people may think we are not in a recession but in the beginning of a depression. I do not believe that is the situation. First, the current administration has acted to pump money into the markets and installed some economic underpinnings. The Obama administration seems committed to add whatever stimulus the economy needs. Also, let us not forget the price of gas has fallen from over \$4.00 a gallon in August to under \$2.00 today. Over the next few months we should see stimulus programs going into infrastructure projects, green energy, and the mortgage industry; in fact if credit is good I am now seeing conforming loans near 4.5% – rates that are the lowest since the 1960’s⁵[5]. These rates are low enough to cause people to consider refinancing their mortgages, which along with lower energy prices will act as a personal stimulus package.

1[1] NY Times Sunday Jan 11th 2009

2[2] NY Times Sunday Jan 11th 2009

3[3] National Bureau of Economic Research Dec 08

4[4] Bureau of Labor Statistics Jan 13th 2009

5[5] Bankrate.com

So where is the light at the end of the tunnel? Let us start with December; by now most of you have received your December 2008 statements and have seen that your account increased for the first time in months. The stock markets have tested their lows a few times, the last on Nov 20, 2008⁶[6], and have rebounded off the bottom. There seems to be many stocks and bonds that are currently underpriced due to fear. History has taught us fear and greed are emotions that affect the markets in the short term; however, over the long term the fundamentals rule the market. It is not often that great value investors, such as Warren Buffet, make public statements that they believe the market is cheap⁷[7].

We are prepared for a volatile market for the early part of the year, and I will be adjusting your investments accordingly. Now is the time to look for bargains wherever we can find them. I expect to find more opportunities in corporate and municipal bonds, and I am looking very closely at corporations paying sustainable dividends. Since I believe the markets might trade in a narrow range over the first half of the year, I hope to continue to buy on dips and trim assets that I do not like during market upticks. I feel our economy will survive this problem and will once again lead the rest of the world into a stronger and greener future. May the New Year be kind to you.

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⁶[6] CNBC

⁷[7] NY Times Editorial Oct 16th 2008