Climbing a wall of worry

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There are many times when we look at the return of the market and wonder why it is moving in a given direction, regardless of how we perceive significant national or world events. We know that the first quarter was a good one for stocks, regardless of a lot of negative news. There is no way we can ignore the turmoil in the Middle East. It seems that a reach for democracy may be winning in some countries, Egypt for one. At the same time, continued fighting against the wishes against their own citizens gives us concern for Libya and other nations.

On another humanitarian note, the earthquake and tsunami in northern Japan will leave tens of thousands dead and has caused the worst nuclear catastrophe since the Chernobyl disaster. At the same time, we have seen oil prices going up almost daily, breaking $100 dollars a barrel and gas prices breaking $4 dollars a gallon. In addition, there is a major budget problem before Congress and there are significant differences of approach from both sides of the aisle. If you try to listen to all parties, you are likely to hear about fears of inflation, with evidence regarding commodity price increases and the constant argument that the Federal Reserve's accommodative monetary policy will also cause inflation. When the markets go up at the same time the news seems negative, it is assumed that the market is climbing a wall of worry.

As I have written many times before, there seems to be little correlation as to how the market is moving in any short period of time and how the news makes us feel. The first piece of advice that I need to give you is to remember that fear is an emotion that is easy to take advantage of. And remember that the time when the market is most dangerous is when everybody is ecstatic; let's not forget January 2000. And of course the best bargains are when everyone is ready to bail out. Look at how far we have come since March 2009.

As it stands right now, we are neither in a period of excess fear or irrational highs. When we look at investing as a process to help us reach our long term goals, we need to put the stock market in its place and compare it to alternative ways to make money. The single biggest risks we are exposed to are putting our emotions ahead of our needs. Therefore as always we need to invest to reach our goals and not to react to our emotions. We should look forward to what is likely to occur; build our portfolios to reach our goals and not take any unnecessary risk.

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