

Financially Speaking

With Trisha Arndt, CFP®

New Year Brings New Hope For Investors

Happy New Year!!

I can't think of a time when I have ever been happier about turning over the calendar and putting a year behind me. 2008 as an investor is one that I will long remember – and one that I hope never to repeat.

Unless you have spent the last several months on a deserted island somewhere you know that the economy in 2008 went from bad to much worse following the high profile failure of Lehman Brothers and the emergency government rescue of several other major firms. We found ourselves facing a financial crisis of a magnitude that essentially no one – including those directing financial policies over the last decade – was able to predict.

As is so often the case, it is the average citizen like you and I that has paid the price for the greed and mismanagement that occurred on so many levels. From its peak in October of 2007 to the bottom we saw on November 21, 2008, the stock market, as measured by the S&P 500, fell 52%. Over half of that decline happened between September and November of this year.

As we start the new year the consensus opinion is that the economy will likely get worse before it gets better. The incoming administration has made the economy its top priority and governments around the world are working toward restoring economic growth.

And yet, amid such a torrent of bad news, there are things we can find to appreciate and, perhaps more importantly, things we can look forward to as we move into 2009.

Even as the economy seems poised to continue its downward trajectory the stock market has seemed to show some signs of stabilization over the last several weeks. Many investors who receive account statements monthly even saw small increases in values for the month of December – the first time in quite a while for many. There is no guarantee that this trend will continue, and in fact it is common in bear markets for the stock market to rally and then fall to its previous lows again before ultimately moving upward, and yet seeing those increases was I believe a good reminder that the stock market doesn't just move in one direction.

So why would the stock market have moved upward during a month when the economic news continually got worse?

Because the stock market is a leading indicator meaning that its movements are generally based upon expectations of what will happen in the future, not confirmation of what has already occurred.

The stock market tends to move between 3 and 9 months ahead of the economy and historically has gained a significant percentage in the months immediately preceding the end of a recession. There is no guarantee that will happen this time but those who are waiting for the economy to improve before investing in the stock market again may very well miss a significant part of any rally that we see.

While there are always divergent opinions out there, many experts believe stocks as a whole are priced very attractively today. Even investors long famous for forecasting a major downturn on the horizon like Bill Grantham are now saying that stock prices are undervalued. That doesn't mean that they are necessarily forecasting some sort of big, imminent rally where people can make a quick buck but it does mean that long term investors may be able to use this opportunity to pick up quality companies at valuations not seen in decades.

And while the economy is faltering on many levels there are some bright points in the mix for individuals.

Probably most importantly, interest rates are extremely low. If you have looked at buying a home or refinancing recently you know that long term fixed rates today are the lowest they have been in decades. Certainly this will help buyers (and therefore eventually the real estate market) but even those who already own may benefit through refinancing at these reduced rates.

Interest rates on instruments such as home equity loans and even credit cards are also at historic lows, significantly reducing the interest charges borrowers are incurring each month.

And, let us not forget, gas prices have fallen dramatically putting more cash in the pockets of nearly every adult in this country. Lower gas prices give both individuals and corporations more money to use elsewhere – either to purchase other goods or services or to enhance their overall financial picture by paying down debt or building savings.

So as we move into the New Year remember that, while past investment performance can't be changed, we can control how we react to it. Try to look at things from a relative perspective and focus on the long term.

Best wishes for a happy and healthy 2009.

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