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From Bill Losey, CFP®, America's Retirement Strategist®

Dear Lin,

October 10, 2008 - 4:23AM

Good morning.

I've been thinking about you. Please read this message and consider forwarding it on to people you care about. I hope you (and they) find it comforting.

There is no possible way to determine where a bottom is with this market, but the issue is not how far it will fall, but how high it will bounce thereafter.

[Let me outline what is going on, what is real, what is permanent, and what is temporary.](#)

> **The credit markets have seized up. This is real and it is temporary.** Almost all large public and private companies issue commercial paper - short-term debt instruments that mature in less than 270 days to help meet their short-term liabilities. This debt in the past has been very liquid and quite secure. It is what has been owned by most money market funds to help them give savers better returns than they would get from owning Treasuries. Since concern has dramatically increased about corporate balance sheets and their ability to meet even the shortest of obligations, two things have happened. People have fled money market funds, which means that those funds must sell their paper and there is no market for the new paper that is being issued. When you hear about the "need" for a rescue package, this is the main reason why. The Fed and the Treasury are trying to create an avenue of liquidity for these instruments. This part of the plan is what will eventually hit Main Street. The reason that this is temporary is because it is too significant to not be worked out. Everything from hospital payrolls to inventory purchases are dependent upon this mechanism, so it will be fixed.

Wall Street is broken. This is real and it is permanent. Some of the largest investment banks were using a tremendous amount of leverage on opaque instruments that created even more leverage. This industry will continue to change and change dramatically. Access to money will not be as easy, which means profits for these companies will be compromised. Eventually they will come up with new and different ways to make money, but regulation will inevitably make it harder to make as much as they did for contributing as little as they had. This will inevitably change what types of investments will make sense going forward. Less exotic will be back in vogue.

Diversification doesn't work. This is real and it is temporary. When we have a global melt-down, all investments, other than the very safest, fall. This means that asset classes initially fall together. And this is usually the case for around three to six months. After that, the most mispriced asset classes come back more strongly than others. Rebalancing is critical during these periods. By systematically rebalancing, you are forcing yourself to buy low. It has worked for us time and time again in my nearly twenty years in this business.

Fear and greed own the day. This is real and it is permanent. Every day, stock prices are determined by sellers - who either need to raise money or are convinced their stocks are going down, and buyers - who believe that they are getting bargains on investments that will go up. In periods of turmoil, there are far more sellers than buyers. People get scared that their investments are going to fall forever and sell (often at the worst possible times). When markets are going up, people think that they have all the answers and end up buying at the worst possible times. No one is ever completely rational, but successful investors tend to be less scared and less greedy than unsuccessful ones.

People are hurting. This is real and it is temporary. Jobs have been lost and more jobs will be lost. People who piled on debt will have tremendous problems working their way out of the hole that they dug for themselves. The stress of seeing investments drop can add to the stress that each of us feel in raising a family, or work, or tending to our aging parents.

But the one universal truth of these times is impermanence. Nothing lasts forever. Lower interest rates will eventually lead to a housing rebound. Enhanced credit will help businesses expand and hire. During times like this, don't extrapolate what is happening today to fifteen years down the road.

Focus on the things that you can control.

1. If you have a well-reasoned strategy and plan in place, you will be fine. We have worked with countless clients for nearly two decades and have helped them retire comfortably, send their kids through school, and negotiate the sales of their businesses. We have seen many types of markets during these times and through solid financial planning and intellectually sound asset management we have weathered the tough times. We will do so here as well.
2. If you have a job, keep it. If you think you are in jeopardy, start putting out feelers. Higher unemployment will certainly be part of the near-term fallout and a lot of unemployed will be very capable people.
3. Control spending until you have or can keep an emergency fund that lets you sleep at night.
4. Save...
5. If you spend (and you are not someone who has more money than you could ever need...yes, they do exist and I hope you become of these people by either having a lot or needing just a little), spend first on things

that will reduce your costs in the future (energy efficient appliances for example) or on things that will appreciate instead of depreciate (investment property instead of a car).

6. Do everything possible to keep your good credit history or improve the one you've got. Going forward good credit is going to mean more than ever. The days of buying houses, etc with mediocre credit are over.

7. Never invest money you will need in the short term. You never know where the market will be when you need money.

8. Diversify. These events show that regardless of size and reputation, any company can fail. Diversification means the failure of a company or even a sector is much less likely to destroy your portfolio.

9. Turn off the pundits. Pundits don't make news but they'll wring even the smallest story dry. They have a lot of time to fill.

10. As Warren Buffet says, "develop your own talent". He explains: "If you are the best doctor in town, if you're the best teacher in town, if you're the best salesman in town, you'll do well no matter what the currency does." In the end, your ability to earn an income is your greatest asset. So, if you are still working, be the best at what you do!

Finally, if you are extremely distressed by the situation then, I believe, you should consider making changes. This is contrary to the standard advice most advisors are providing to clients which is essentially to "stay the course." Please understand this stay the course advice is the general counsel and is based upon what we have come to understand with respect to the financial markets. However, if you are experiencing significant distress, then consider such a move as a way to diminish the stress in the short-term. It may turn-out to be the wrong decision financially if the markets come raging back quickly but different individuals have different tolerances for uncertainty and the related potential emotional distress. Ultimately, your health, wellness and happiness is a currency more valuable than money.

Please continue to let me know how I can help you. Thank you for all the confidence and trust that you have shown in me. I cannot convey to you how seriously I take it.

Warmly, Bill

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