

Strategies for Today's Markets – October, 2008

By Rick Epple, CFP®, NAPFA Registered Financial Advisor

What a week! Everyone is nervous. It certainly is understandable if recent news in the financial markets worried you.

This is the ugly side of capitalism in a loosely regulated environment (investment banks aren't as regulated as commercial banks). Over the past few years, many companies have taken advantage of relaxed standards to make a lot of money. For instance 10 years ago no one would have thought you could have no money down, no job, no assets and still buy a house. There is no doubt that many consumers were willing customers for such products. But institutions should have been held to higher standards. Why, that sounds like unwanted government intervention. So is bailing out the very same financial institutions, which would be something akin to a weird kind of corporate socialism where the guys who made all the money in the first place have no downside to taking so much risk.

Too little government or too much government? Food for thought and frankly a very complicated issue. I think there are solutions. And I also think it may be better to take some medicine now than pay an even bigger price later.

In the meantime what can you do?

1. Keep your job. And 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 the unemployed will be very capable people.
2. Control spending until you have or can keep an emergency fund that lets you sleep at night.
3. Save...
4. If you spend (and you are not someone who has more money than they could ever need...yes, they do exist and I hope each of you becomes one 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).
5. Do everything possible to keep your good credit history or to 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 for the foreseeable future.
6. Never invest money you will need in the short-term. You never know where the market will be when you need the money.
7. 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.
8. 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.

Reconsider if you are planning to sell your investments. IT IS YOUR MONEY and ultimately any decision is yours to make. But selling into a market like this almost always turns out to be a bad decision.

I suggest we all wait at least a couple of days before doing anything. Then I hope that most of you would at least 'stay put' or just make some allocation modifications. Those of you with strong stomachs (or too much cash on hand...yes those people exist too) may decide that the possible returns justify the risk and buy now, 'buy low.' There are certainly some bargains out there. The right answer is the one that works for you. But to the extent possible, don't let fear do the driving for you.

It's always darkest before the dawn.....so what time is it now? The answer is 'who knows?' It is strange how much perspective changes over time. It is possible that this is just what was needed to jerk the attention of Americans from American Idol to our precarious economy. We might take meaningful action as a result of these events, actions that will make our future much more viable. In the meantime, be glad that your investments are spread over many companies, sectors, and counties. This is invaluable, especially at times like this.

Oh, did I tell you the price of crude is way down...? ☺

Sincerely, Rick Epple, CFP®

Rick Epple, CFP®, is the founder and president of Epple Financial Advisors (EFA). We at EFA work in our client's (including dentists) best interest to understand their unique issues and create a flexible but clear and direct road map to achieve their goals. This consists of a comprehensive and integrated wealth management plan and corresponding unbiased custom solution. Our plan will continue to guide and protect our clients in the years ahead, regardless of the changing market and economic condition.

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