

# Ask the Advisor



## *The Bear Market of '08 Q&A!*

### ***When will the stock market recover?***

There's no pot of gold at the end of the rainbow, Elvis is not coming back and the stock market cannot be predicted – *accepting so will add far more value to your bottom line than any prediction ever will.*

The market is itself a predictor, a leading indicator and one of the best. In fact, the current stock market decline began over a year ago in October of 2007 – long before credit and confidence crises became popular media words. The market tells us, usually 3 to 12 months in advance, what's going to happen.

*When will the stock market recover?* Most likely, 3 to 12 months before the economy recovers.

### ***Is this similar to the Crash of '29?***

The Crash of '29 was driven in large part by unregulated margin buying and bank failures. Margin buying, as done in '29, meant that one could borrow thousands upon thousands to buy stock yet actually own very little.

The margin buying drove the market to ridiculous valuations, proportionately, not seen since. Much of the margin money was borrowed from banks; the banks couldn't collect on the loans and the run on the banks left little, if any, cash to fund a stock market recovery.

Today, margin buying is strictly limited and by some estimates, there may be as much as \$10 trillion in consumer cash or near cash (money markets and the like) on the sidelines – more cash than market value lost. This is a recession and a major market sell-off, but don't mistake it for the crash of '29.

### ***Can the stock market go to zero?***

The stock market is driven long-term by corporate earnings, nothing more exotic. Corporate earnings reflect the goods and services that we produce and the money that we spend buying those goods and services.

The stock market could go to zero if we all stopped working and we all stopped spending – possible - but ridiculously unlikely.

### ***Is now finally the time to invest more in the market or time to move into safer investments like cash and bonds?***

Any move, or lack there of, should be based on *your* time horizon, risk tolerance and need – *not on the stock market.*

### ***What should I do?***

If you were properly invested for risk and return based on your particular need before the market decline, and you have maintained your portfolio in accordance with that strategy, then you are still properly invested.

If not, make a permanent change, but a change in strategy based on you, not a change because of what has happened or what you think will happen in the market.

### ***My retirement doesn't look so good now, what can I do?***

- *Delay retirement* – each year of delay will increase, on average, your retirement income by 7%.
- *Delay drawing Social Security* - each year of delay will permanently increase your benefit by 8%.
- *Work part-time in retirement* - earn 40% of your pre-retirement income for five years in retirement and increase your retirement savings by as much as one-third.
- *Maintain the best health that you can* – despite Medicare, medical costs are regularly one of the largest retirement expenditures. Staying healthy can reduce those costs with the added benefit of better quality of life.
- *Thrift* – spend less and temporarily forgo any inflation adjustment increase for what you do spend.
- *Last resorts* - Ask friends or family for help. Don't wait until it is too late, a small monthly stipend now can offset a huge financial catastrophe later.

A final strategy and one not to be taken lightly; tap the equity in your home (a reverse mortgage). You won't get the full value of your dollar, but if doing so allows you to stay in your home and otherwise survive, it might be worthwhile.

Last but not least, *relax*, the greatest market declines have always come hand-in-hand with the greatest markets gains, and both have always come the same way, *unexpectedly!*

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