

Ask the Advisor

“When will the recession end?”

Tom in Manchester



The economy is stimulated directly by consumer, business & government spending, bank lending, tax cuts and capital investment. It is further stimulated indirectly by capital appreciation, including real estate, and consumer confidence.

It was also over-stimulated by a greed-driven shadow banking system that included hedge funds and private equity firms. The shadow banks' and related insurers' subprime mortgage derivatives, credit default swaps, and other complex investment vehicles were the crux of the financial meltdown.

We are now in windless doldrums with most

stimulants still largely in limbo. Government spending is on the rise and will stimulate the economy to some extent, but that alone is not enough and it does come with a very hefty price tag. Tax cuts will also act as a stimulant, less costly than spending but slower and with even less conviction.

There is no perfect solution; the economy will recover when more stimulants come on line and igniting all of it will be improved consumer confidence.

Helpful in understanding our predicament is Sir Isaac Newton's third law, for every action there is an equal and opposite reaction. The action in this case was the financial

meltdown. The equal and opposite reaction has been a huge stock market sell-off, jobs lost and an economy in severe recession.

Interventions can soften the blow but there is no shortcut, no way around paying the price. How far along we are through the reactionary process, paying the price, is impossible to say but the stock market certainly shows an enormous price thus far paid, and even if it doesn't feel like it, that's actually good news toward recovery.

What can you do as an investor? First and foremost, always be properly invested for your time horizon and risk tolerance.

Second, just as sailors of

days past did when caught in the doldrums -- conserve, be patient, be ready in case more storms appear on the horizon but at the same time, be ready for the winds of wealth to once again blow. For they will, unknown when, but when they do, with conviction and prosperity – and if history is any indicator, especially so in the stock market.

Third, don't lose faith, the greatest risk always lies with the greatest elation and the greatest opportunity always lies with the greatest desolation.

Or put more succinctly by one of the twentieth century's shrewdest investors, Hetty Green, “Buy cheap and sell dear.”

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