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Bears Bad News?

What to Do When You Read About Carnage in the Market

By Kevin Bourke

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Dear Kevin,

The news seems to get worse every day: Banks are writing off billions of dollars, home prices are tanking, the unemployment rate is up. Should I just stuff my money under the mattress? — Joan from Las Vegas

Dear Joan, your concerns are legitimate, as the news does seem to paint a bleak picture.

But allow me to offer an observation. For the two decades that I've been advising individuals and institutions about their investments, there has never been a time when the news was good. Not once.

Really, would any news publication stay in business if they only reported the rosier side of life?

Money Talks

So, the news will always be bad, there will always be a reason to not invest, there will always be a measure of fear present. What then is an investor to do when they read about the carnage in the capital markets?

Warren Buffett famously said, "We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful." He meant that when the news about the markets was bad, he was ready to step up to the plate and start buying investments.

Does that mean it is time for you to start investing, stop investing, or change your strategy?

Warren Buffett also said, “Our favorite holding period is forever,” and “Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years.”

Joan, do you feel that way about your investments? For example, if you use a financial advisor, has that advisor demonstrated what has happened in previous turbulent markets with a portfolio like the one you own? In other words, has your portfolio been shock-proofed? How much risk are you taking?

While past performance is no guarantee of future results, is there a disciplined approach to your investments? Or do you just own a miscellaneous collection, perhaps a few stocks, maybe some bonds, and so forth, but without any cohesive plan?

Too often, portfolio reviews reveal that investors own a hodge-podge of holdings, with no thought being given to asset classes, correlation, standard deviation, beta, alpha, ratings, and other pertinent measures.

Is your portfolio such that you, like Mr. Buffett, would be willing to hold it should the market shut down for 10 years? That example is a bit extreme, but it does illustrate the point. How well constructed is your investment portfolio?

Another angle to consider is; how do you feel about market volatility? Do you consider it the price you pay to enjoy stock-market-type potential returns? Or does it keep you up at night, is it the subject of anguished conversation, does it cause you to worry about your financial future?

If market gyrations cause you undue stress, there are two basic causes. The first reason you might be anxious is lack of education. You might just need to learn more about what to expect from investing in stocks and bonds.

Or, it’s possible that you should not invest in anything that fluctuates in value. Be honest with yourself in considering this question. One man’s great investment can be another man’s nightmare if it does not suit his tolerance for risk. Investing is as individual as drug prescriptions, every person’s needs must be considered before buying the product.

Should you stuff your money under the mattress? No doubt many are doing exactly that, while others see an opportunity to buy into a market they consider “cheap.”

Without knowing how much risk your portfolio holds, how it might react in a down market, and how you will react along with it, are you prepared to make a decision?

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