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Is the Sky Falling?

By Dan Searles

During my 27-year career in the financial services business, I have seen many market ups and downs. I entered my career in a market when mortgage rates were 18% and the insurance industry, much like today, was in disarray. Most of the big companies, such as Prudential and Metropolitan Life, switched from mutual (customer owned) to stock owned companies in order to survive. Yet, we did survive and so did our economy. Still, through the years, the economy's gains were often derailed by disaster after disaster, or maybe, in hindsight, they were really correction after correction.

From August 25, 1987 until December 4, 1987, the market dropped 33.5%. It seems that nobody understood junk bonds. Many thought that we might never recover (Source: October 1, 2008 USA Today). Later, from October 9, 2000 until October 9, 2002, the S&P 500 lost 49.1%. The tech bubble had burst and, on September 11, 2001, our enemies attacked us. How would we ever recover?

Currently, it seems some of our politicians and their cronies (oh, we meant to say political appointees) have used Freddie and Fannie as their own personal playgrounds. Their ineptitude and perhaps criminal behaviors have brought our financial institutions to its knees. President Bush declared, "Congress must act." After September 29th's manic plunge, the S&P was down 29.3% from its October 2007 all-time high. "That is bad. Real bad. But, it's only the sixth worst bear market drop since World War II" (Smith, Adam, USA Today, October 1, 2008).

Folks, every crisis has its flash point, whether it's war, corruption, or a homeland attack by evil religious fundamentalists. The point is, as it's happening, it's easy to react poorly, to pull out of the market or, like Chicken Little, scream to all that is good that this time the sky really is falling. After all, the Doomsayers will be right once, but somehow I doubt they are this time.

The more rational and profitable approach is to step back, maintain a detailed perspective, and review where your personal finances stand:

1. Is your portfolio designed to help meet your long-term goals?

2. Are you diversified? (Hint: six different CDs do not mean diversification anymore than six growth stocks do.)
3. Are your accounts insured from losses where appropriate?

After you have reviewed your personal finances (see a professional if you need help), then try to look at the economy in a detached rational manner, i.e....

1. Yes, the housing market is terrible, yet prices needed to come down to more historic levels.
2. How far down can the markets go? Can they go to zero? Yep, it's possible. But do you believe it, or do you believe the markets have an opportunity to eventually recover?
3. Do you believe that the U.S. still punishes corporate and political crooks, or do we let them get away with their corruption like so much of the world? On this one, the jury is still out.

I think this nation should demand that Republicans go after crooked Republicans and Democrats should go after their own too. That willingness of both parties to weed out their own crooks should be our politicians' basic litmus test. Liberal or conservative, if they're not honest, let's throw them out and, where appropriate, put them in jail.

Personally, I believe the markets could eventually recover. Yes, we are in a bad time caused by congressional political corruption and corporate greed. I also think these problems have great potential to be fixed. I believe we will skirt the direst of economic predictions and that, in the end, our economy will flourish and will still be the envy of the world.

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