

May Madness and Investor Fear

Our recent April 15th HWM ViewPoint newsletter bore the title “**March Madness and Investor Madness**”. Based on current trends and sentiments, the new headline for our new communication tool, HWM ONEpoint, unfortunately reads “**May Madness and Investor Fear!**”

Thus far in 2010, we have seen the Dow Jones Indus. Avg.:

- Start trading 1-1 at 10,428
- Peak on 4-26 at 11,205 (*ytd gain of 7.45%*)
- Plummet on 5-25 to 10,043 (*ytd loss of 3.69%*)

The swing from the 4-26 top to the 5-25 year-to-date bottom of more than 10% qualifies as an official “correction”. (Source: yahoo.com).

Moreover, doom and gloom headlines again dominate. The decline of the Grecian economy is the most recent πρόβλημα της ημέρας (*Greek- ‘problem of the day’*), along with overall global worries and a yet-tamed oil spill.

If you are a short-term investor with a short-term view, you have every right to be fearful when others are fearful (*a reversal of Warren Buffett-thinking*). By all means, study the headlines and react accordingly. Henry Wealth Management frankly, is not the right firm for this style-investor. A transactional broker would better serve you.

Is that to say at HWM, we never tweak allocations, never re-position a stock portion to bonds? Certainly not! Here two unemotional reasons to change an investment strategy:

Unemotional Reason #1 to reallocate: To rebalance.
If you are a client with a financial plan (*a HWM MoneyMap*) whose target asset allocation is 60% to stocks and 40% to bonds, presently, your allocation may have declined to a 55-45 position. Assuming your annual rebalancing point was today, your portfolio would automatically re-set back to 60-40. How? By “**selling high**”, repositioning 5% out of bonds and “**buying low**”, adding 5% back into stocks. Rebalancing is a critical part of a long-term strategy.

Unemotional Reason #2 to reallocate: Changing Goals.
There are a number of reasons why we might mutually decide to allocate more conservatively on a going forward basis, due to a change in a critical goal. The most frequent one is because a client is drawing nearer to retirement.

There is a third, *emotionally-charged reason* why some who do not adhere to our advice, might sell;

Emotional Reason #3 to reallocate: I am scared!

No further comment on this point is required. Just follow the media.

We have often cited the annual **Dalbar Study** of returns and investor behavior for 20-year periods. The most recent data available is for the 1990-2009 period. During that 20-year span, the average investor **sold his stock positions every 3.2 yrs.** His results were as follows:

- **3.17% average annual return, 1990-2009**

The patient, long-term investor, who **bought and held the S & P 500 for 20 years** had these results:

- **8.20% average annual return, 1990-2009**

You may object; “*I do not have 20 years to invest...I am 70 years old.*” If you plan to invest to receive income for the balance of your life (*for joint-lives if married*) then by definition, **you are a long-term investor!** Your allocation would certainly not be 100% to stocks. However, the Dalbar study is a significant reference tool to illustrate the importance of creating a financial plan and then maintaining an asset allocation strategy.

HWM ONEpoint: There is madness in May of 2010. It may well continue until May of 2011! Conversely, we could see a sharp reversal at some point, like we did in March of 2009 (*when no one expected or predicted an about face*). Can we discuss your asset allocation in light of modified goals? Absolutely! Should we make wholesale changes based on current market trends, fueled by emotions? Absolutely not!

The Dow Jones Industrial Average is a popular indicator of the stock market based on the average closing prices of 30 active U.S. stocks representative of the overall economy.

Using diversification as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss of principal due to changing market conditions.

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