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Special Points of Interest

- A reminder of what can be controlled
- Getting out may mean missing out
- Think Long-Term, Stay invested

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November 7, 2008

Market Timing (When) vs. Market Time (What)

In this edition, I'd like to deal with the issues of timing vs. time. Market timing is a strategy in which the investor, possibly aided by a broker (*who may be compensated on a transactional basis*), tries to identify the best times to be in the market as well as when to get out. Decisions to move in or out supposedly rely on market forecasts and key analytics, yet typically, some "gut feel" is tossed in for good, or not-so-good measure.

Proponents of market timing say that successfully forecasting the ebbs and flows of the market can result in higher returns.

The "When" factors facing the Market Timer

Properly timing the market entails making two correct decisions, namely, "*when factors*".

For the person with cash looking to invest: **WHEN** do I buy and then later, **WHEN** do I sell?

For the person already in the market: **WHEN** do I sell and subsequently, **WHEN** do I get back in?

Thus, to successfully earn above-market returns, the market timer needs to make two relatively correct decisions. Moreover, these two correct decisions need to be made repeatedly to enjoy long-term success. While this strategy does offer the potential to earn superior returns, it goes with out saying, that the investor also assumes more risk.

The "What" factors for the Buy and Hold Investor

For the investor desiring to earn what the market provides in the way of long-term performance, their main focus is on "*what factors*", more precisely, **what can I control?** They believe that markets may be accurately forecasted over long time periods, but exhibit great volatility in the short run. Thus, the buy and hold investor develops a "*what should I do for the long-term*" plan,



which focuses on the six key controllable attributes;

1. Control Allocations: Consider the optimal ratio of stocks to bonds based on ones goals, time frames and propensity towards volatility. This is asset allocation.

2. Control Diversification: Stretch allocations to stocks and bonds across a broad range of various sub-types of stocks and bonds. This is diversification.

3. Control Entry: Using a technique termed "*Dollar-Cost-Averaging*", the investor with cash favors a gradual, incremental entry over a period of months into stocks, as opposed to a one fell swoop lump sum.

Market Timing vs. Market Time continued...

Dollar-cost-averaging tends to protect against an early downturn.

4. Control Rebalancing: This ensures that allocation and diversification goals are maintained by annual portfolio “tweaks”, designed to return to the original desired mix.

5. Control Distributions: To the greatest extent possible, long-term assets are to remain “invested” and not viewed as a short-term source of liquidity. Investors are encouraged to keep a pool of shorter-term “cash” for needed or unexpected withdrawals.

6. Control Emotions: Opt not to ride the “emotional roller-coaster”. This occurs when investors buy into an advancing market (near the top) and sell into a declining market (near the bottom), normally because emotions are their guide.

These six key attributes define the one who believes that time in the market trumps market timing.

Henry Wealth Management does NOT espouse Market Timing

We have never proposed, discussed or considered utilizing a system of timing the financial markets. We advocate the

“buy and hold” strategy, time in the market, and desire to deploy the six key attributes that can be controlled.

Objections and Answers

While not verbalized, we nonetheless realize that this “double bear market” (nearly twice as bad as the average bear) may cause some to think, “*why couldn’t we have gotten out just as things were turning bad, or even say, six months into it, as the four F’s were unfolding: Banks failing, Wall Street institutions folding, credit freezing and the government resorting to providing financing?*”

Good question.

Our answer is, **we have seen these headlines before!**

They may not read exactly as the current ones of today, but we have always faced dire captions of one form or another. The Old Testament Book of Ecclesiastes reminds us; *That which has been is that which will be, and that which has been done is that which will be done. So there is nothing new under the sun. (Eccl. 1:9).*

Translated to our economic times; we have recurring periods of growth, prosperity and

excess, followed by times of decline, recession and cut backs. The problem is, no one can predict with any degree of accuracy, when one segment will start, how long it will run, will it end slowly or abruptly, and how quickly will a new trend emerge? This is not to mention trends within trends!

Thus, questioning why we stayed, or are staying in a bear market is akin to asking why we are not market timers? We believe it is better to control what can be con-



trolled, revisit goals, and if portfolio adjustments are made, they are based on changes to goals and rational planning and not based on emotional reactions to events, forecasts and headlines.

Additionally, for those who believe that they do not have as much “time”, i.e., you are nearing or are already in retirement, your investment strategy should be taking that into account already. In most cases, clients in those categories are already only 40-60%

Market Timing vs. Market Time continued...

allocated to stocks. Certainly you've been hurt this year in that not only have stocks been beaten down, but unlike most bear markets, *so have bonds!* Yet, is now the "time" to surrender and to lock in losses, or to realize that if you are near or even in retirement, you still probably have 15 or more years of life expectancy in front of you, even more if you consider the joint life expectancy of spouses.

TIME Summarized

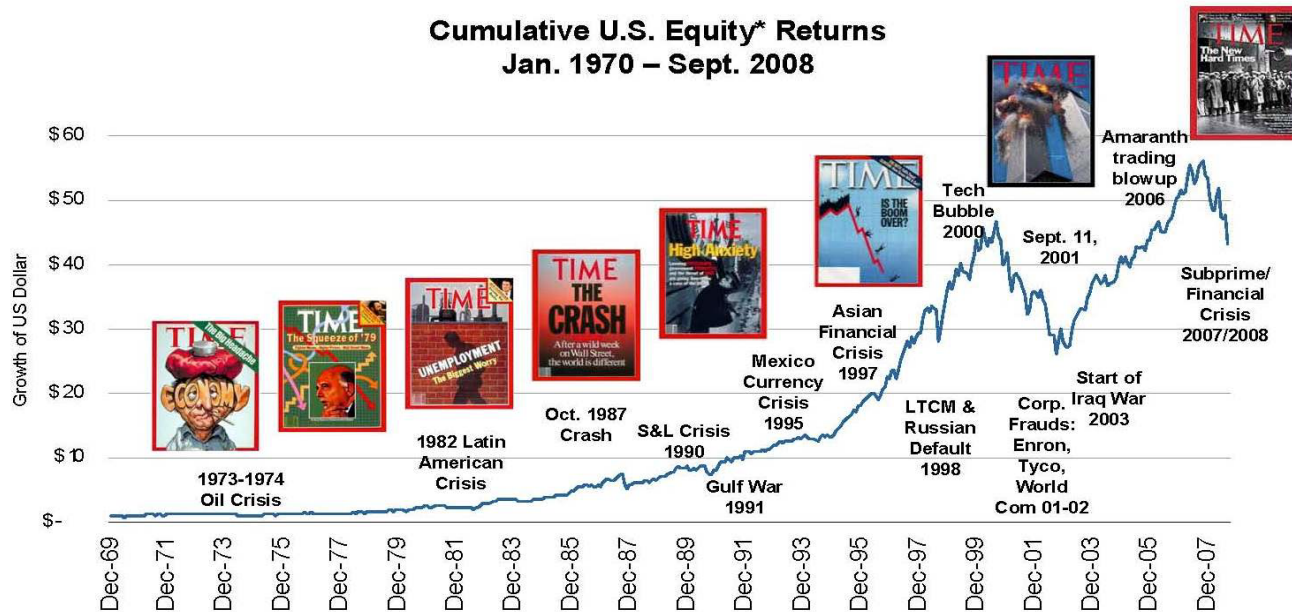
Therefore, to summarize what we believe to be the fallacy of market timing, it is only appropriate to consider eight sensational headlines from none other than 'TIME' MAGAZINE. The headlines range from 1970 through 2008.

How many "times" were their gloom and doom forecasts correct for long-term investor?

Consider that the blue line, representing the broad-based Russell 3000 index, has steadily increased over time, yet with some short and some not so short periods of decline.

Henry Wealth Management believes in and adheres to the discipline of BUY and HOLD, with the six key controllable attributes deployed. We hope that this message resonates during good times and bad.

Déjà vu? A history of *uncertain* times



*Equity Returns: Ibbotson & Associates 1970 – 1978; Russell 3000 1979 – Current
Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Asset allocation and diversification do not protect against loss of principal. Dollar cost averaging does not assure a profit and does not protect against a loss in declining markets. This strategy involves continuous investing; you should consider your financial ability to continue purchases no matter how prices fluctuate. Rebalancing assets can have tax consequences. If you sell assets in a taxable account you may have to pay tax on any gain resulting from the sale. Please consult your tax advisor. The Russell 3000™ Index measures the performance of the Russell 3000 Index extended to include microcap securities of the Russell Microcap Index. Indices are unmanaged and cannot be directly invested into.



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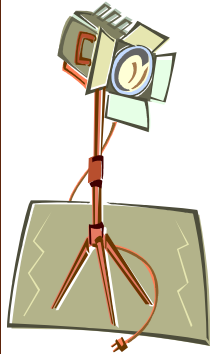
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Architects for Wealth



Spotlight On...

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In an ongoing effort to provide prompt and superior client service, we have implemented the **HWM Service Center** on our website, to serve as a communication portal between you and us.

While many clients prefer to speak with us for service-related issues, we know that a growing majority would prefer to quickly send requests to us for various items.

Presently, the **HWM Service Center** includes requests for account contributions, distribution, and contact changes and miscellaneous requests.

Please don't hesitate to call us for any service-related reason, but also feel free to visit **www.HenryWealth.com** and click on to the **HWM Service Center** as a

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Creating a successful financial future may be likened to the design, construction and conservation of an architectural masterpiece. At Henry Wealth Management (HWM), we assist our clients as their *Architects for Wealth*.

The financial architectural process employed by HWM includes:

- A thorough fact-gathering and goal-setting meeting.
- A creative, custom-made financial blueprint based upon each client's needs and goals.
- The implementation of a financial plan through our independent (not tied to any particular company, product or service) and fee-based (as opposed to commission or transaction-driven) approach.
- Ongoing review of plans and progress towards goals.

About Us

- Welcome Letter
- Our Associates
- Our Strategic Partners
- Our Services
- Our Location
- HWM DataPlan
- HWM Published Articles
- HWM ViewPoint Newsletter
- HWM PartnerView (For Clients Only)
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Learning Center

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HWM Service Center (For Clients Only)

In an ongoing effort to maximize our client service efficiencies, we have implemented this tool to assist in the communication portal between our firm and our clients.

On these forms, you will find quick and simple questions that will be required in order for us to promptly process your request. Answer the quick questions directly on your computer, click the "Submit" button at the top of the form, and hit send on the email page which pops up. Or, if more convenient, print the form, complete in dark ink and fax to our office at 412.838.0204. As soon as your request is received it will be processed and you will receive a confirmation via the option you choose on the form. If you experience any problems, please contact Amy Rhoads at our office for assistance.

Distribution Request Form - complete this form for a one time withdrawal request from your custodial accounts.

Systematic Distribution/Contribution Form - complete this form if you would like to set up automatic contributions from your checking account, or if you would like to set up systematic distributions from your custodial accounts.

Contact Change Form - complete this form if you have recently moved, changed employers, or have just updated your contact information. Also, you can complete this form if you only need to change the address of record on any of your custodial accounts.

About Us

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