

HWM ViewPoint



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Architects for Wealth

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How Low Can We Go?

As you may well know, the Dow Jones Industrial Average closed on Monday, March 2, 2009 under 7000 for the first time in 11 years! (*Source: USA Today 3/3/09*) While economists and commentators will offer varied opinions for this dramatic decline and speculate as to when it might end (if ever), allow me to simply and concisely state what I believe to be true.

There are **specific and non-specific causes**, as well as **emotional** factors that may affect the prices of stocks. .

Specific causes would include reasons that are specific to an individual company, which in turn impacts its stock price. Examples include loss of market share relative to competitors (*ex. traditional airlines losing business to Southwest*), increased costs of doing business, unfavorable lawsuits and /or mis-management.

Non-specific causes include reasons that are more broad in nature, impacting an entire industry or even in a severe case, such as what we're presently experiencing, an entire economy! Examples would include an overall lack of financing available to businesses, a tightening of consumer spending, and lack of demand. The latter may seen more clearly on an industry-wide basis— the restaurant industry may be off due to consumers tightening belts on discretionary spending, while grocery stores may be up as more people are "eating in".

Beyond specific and non-specific causes which may impact stock prices, there are also **emotional reasons** which may drive stock prices up or down.

The two emotional ends of the financial spectrum are FEAR and GREED.

Fear is mostly represented by a lack of investor confidence, which drives the price of a stock far lower, in my opinion, than it should be. I believe that a good portion of the present decline is fear-related. Consider **U.S. Steel** as a prime example. As of the close of business 3-2-09, U.S. Steel's high for the past 52 weeks was \$196.00 and its low was \$16.80. When the closing bell rang on March 2, it closed at \$16.88. (*Source: Yahoo Finance 3/3/09*)

I CANNOT be convinced that the arguably the greatest and most respected steel manufacturer in our country is now worth a scant **10%** of what it was at its high point during the past 365 days! I offer no analysis other than a common sense appeal!

Greed on the opposite end of the emotional spectrum, has often fueled bull markets. Consider the run up from the mid to late 1990's, which finally ended via the "Tech Bubble Bust" in March of 2000. It was not the Y2K hysteria (*remember that?*) which brought our stock market to its knees after a very long period of prosperity, but rather, the unprecedented demand for technology stocks which had **no earnings or proven track record**, but which greedy investors thought was a way to almost certain, sudden wealth. A classic euphoric, "no end in sight" mentality.

For those that possess two important ingredients, **CASH and TIME**, this present market in my humble opinion, represents a tremendous opportunity to snatch up bargains! I would be nervous

about trying to pick one or even a handful of companies and as such, recommend a globally diversified approach.

Some have asked me, "*Phil, how do you personally invest? How do you allocate your own assets?*" I have stated to them and now go on record here:

I, Philip C. Henry, owner of an IRA (*a rollover from a 401k*) and SIMPLE Plan (*for employees of HWM*) do hereby proclaim that **I am allocated 100% in a globally diversified stock portfolio!**

Why am I so aggressive? Two reasons:

1- Time Frame: I consider myself a young 49 who very much enjoys his profession, largely due to wonderful client relationships! With five children, four of whom are still candidates for post-secondary education (*our youngest only 6*) I plan to be here for years to come. As such, I view my personal investments as long term holdings and plan to not touch these retirement assets until I am forced to do so at age 70 ½. Thus, my long term time horizon lends itself to an aggressive allocation.

2- Empathy: Many clients in my age range are most comfortable with stock allocations in the 70-80% range. Thus I choose to be MORE aggressive than all but only a few of our clients, simply to be able to relate to what you may be going through. Keep in mind that I do not recommend this aggressive approach to everyone.

Let's consider some additional important investment principles.

The Emotional Roller Coaster

Many investors are beyond fear at this point...is numb an emotion? That said, I implore you to closely consider the **Emotional Roller Coaster**.

It's possible that we are at or near the bottom. If so, this would represent an opportune **TIME to INVEST** excess cash (via *dollar-cost-averaging*- page 3).

Moreover, those already contributing via payroll deductions or monthly contributions should **CONTINUE to INVEST**.

May the market drop even more? Of course. That is why we preach new investments to stocks-bonds should only be made if the holding period will be **at least a five years!** Shorter-term

time frames need to employ a savings mentality (which we can help with, too).

Understanding the **Emotional Roller Coaster** may actually help you to counter the prevailing negativity and avoid being swept up into the wave of popular pessimism. By the way— stay on the ride, buckled, with hands in!

The emotional roller coaster of the market

Market cycles depend as much on people's emotions as they do on market fundamentals. When a stock or fund you purchased goes up, you feel euphoric. When it goes down, you feel defeated. But making an investment decision based on emotional reasons instead of analytical ones can lead to costly mistakes.

Where are your emotions on this chart today? And where do you think they will be a year from now?



(source: John Hancock Funds)

Feeling Out of Control, But Are We?



A common theme at Henry Wealth Management is to consider what we **can control** versus what is **out of our control**. First allow me to offer a story about my brother and partner, Dan.

Dan has a wonderful son, Ryan, who is a seventh grader with aspirations of playing High School basketball, Ryan is working extra to improve his game. Here is Dan's on-going pep talk to his son:

What Ryan can control: Attitude, Determination, Work Ethic, Be Teachable

What Ryan can't control: Height, Injury, Coaches Preferences

Now let's turn our attention to what we can and cannot control relative to our long-term objectives and carefully

constructed portfolios:

What we can control: Asset Allocation, Diversification, Rebalancing, Time in the Market, Emotions

What we can't control: Government Policies, Media, Investing Public's Reactions, Stock Prices

To increase our odds for success, we must focus on what we can control!

The Importance of Dollar Cost Averaging

Sun America, a leading provider of insurance and annuity products, has compiled an excellent piece on **Dollar-Cost-Averaging (DCA)** during volatile periods. Let's consider two very volatile periods in our nation's history, namely, the **Great Depression** and the **Oil Recession**, to see the potential power of a DCA strategy.

In each case, we start with a \$250,000 investment and track the results over a five-year period, which again, is the minimum time frame that we espouse for buying an investment with equity

exposure. In each case, we will consider three different investing scenarios:

- 1) **Begin a 12-month DCA strategy at the mid-point of the recession (yellow line)**
- 2) **Make a lump-sum investment at the mid-point of the recession (red line)**
- 3) **Stay in cash until the recession ends and then make a lump-sum investment (green line)**

As the examples illustrate, the investor who started a DCA strategy at the mid-point of the recession, investing equal amounts over a 12-mo. period, despite negative news and prophecies of doom, achieved far better long-term results (yellow) than the investors who "dove in" (red) or the one who waited until economy got back on track (green).

Caveat: While DCA is a proven investment strategy, it can't guarantee a profit or protect against loss in a declining market. You should consider your ability to continue to invest during periods of market volatility.

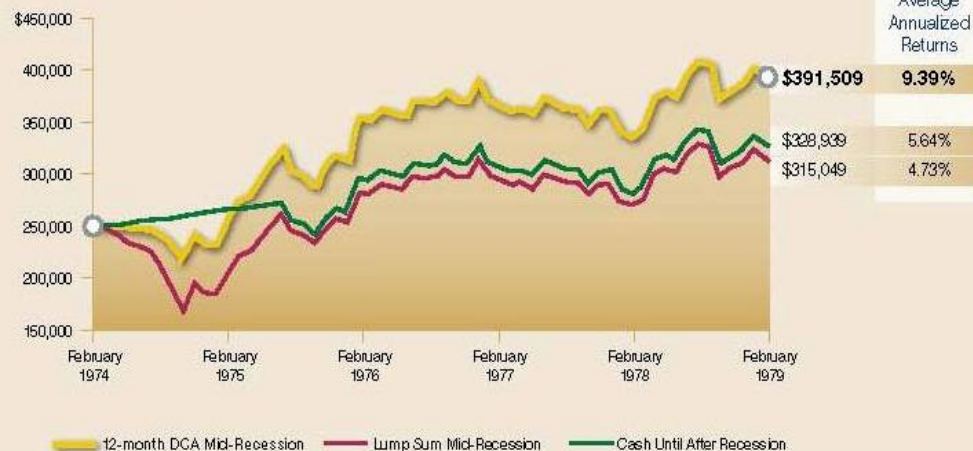
Take Advantage of Dollar Cost Averaging in Down Markets

1929 Great Depression



Assumptions: The 12-month DCA strategy and Lump Sum investment start in the middle of the recession in both examples. The remainder of the DCA monies accrue interest from 30-Day Treasury Bills (source Ibbotson) until they are invested. Cash sits in 30-Day Treasury Bills until three months after the recession ends. Market results are from the S&P 500 Index (source Ibbotson).

1973 Oil Shock Recession



These hypothetical illustrations reflect unusual periods in the markets and are intended to show only the effect of dollar cost averaging, not the actual performance of any particular investment. Past performance is not a guarantee of future results. Indices are unmanaged and cannot be invested into directly.



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Architects for Wealth

Asset Allocation Based on Life Stage

In our Oct. 10, 2008 issue, we offered general guidelines regarding how to allocate assets based on various ages and time frames, or **Life Stages**. Let's reconsider that discussion now, at this critical point.

Some investors are questioning the allocations they currently possess, especially when dealing with the negative sign in front of your "return". While many individual circumstances merit special consideration, we still want to reiterate some general asset allocation guidelines:

A - You are years away from retirement:



- Time is on your side
- An allocation of 80% to a diversified portfolio of stocks, the balance to fixed income, may be appropriate

- Continue to fund your retirement accounts as much as possible
- Fund your non-retirement accounts (such as 529 plans)

B - You are within five years of retirement:



- Begin to tone down
- Appropriate allocation may be 60% to stocks
- Continue funding retirement accounts— over age 50 using "catch up" provisions
- Be careful of adding funds to deferred compensation plans, as future payouts are based on the solvency of your employer

C - You are in retirement:

- Appropriate allocation may be 40-60% in stocks
- If possible, **eliminate or reduce portfolio withdrawals**



during periods of extreme market decline (*except for required minimum distributions from retirement accounts, which for 2009 is not mandatory*)

- Take income from conservative accounts, with moderately allocated accounts kept for later years

To our valued clients, it is our goal at Henry Wealth Management, as Architects for Wealth, to stand shoulder-to-shoulder with you during difficult times, to always be available to answer questions, and to schedule review meetings as needed. Thank you for your feedback and most importantly, for your business and trust!

Sincerely,

Philip C. Henry

Disclaimer

Asset allocation and/or diversification do not guarantee against loss. 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.. S&P 500 Index is a market cap weighted index composed of 500 widely held common stocks. 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. Past performance is no guarantee of future results. Investors cannot invest directly in an index. Securities and Investment Advisory Services offered through NFP Securities, Inc. a Broker/Dealer, Member FINRA/SIPC and a Federally Registered Investment Advisor. NFP Securities, Inc. is not affiliated with Henry Wealth Management, LLC. Henry Wealth Management, LLC is not a Registered Investment Advisor. Philip C. Henry, ChFC, CFS is the President of Henry Wealth Management, LLC, an independent financial planning firm located at 1370 Washington Pike, Bridgeville, PA. He may be reached at 412-838-0200 or through email at Phil@HenryWealth.com. The firm's website is www.HenryWealth.com. The opinions expressed in this commentary are those of the author and may not necessarily reflect those held by NFP Securities, Inc. This is for general information only and is not intended to provide specific investment advice or recommendation.