

Staying the Course...in times of market turmoil

RECENT TURMOIL ON WALL STREET HAS LEFT THE MARKETS IN A STATE OF CRISIS, leaving some of the industry's largest financial stalwarts beaten up and in some cases, left for dead. As the credit crunch and liquidity crisis begins its second year, the U.S. Government made clear that the support it had given to other firms such as Bear Stearns, Fannie Mae and Freddie Mac, may be fleeting. Lehman Brothers, in a bid to win the Government's support to stay afloat, failed, and on Monday, September 15th filed for Chapter 7 bankruptcy. Accordingly, September 15th saw the largest one-day point drop for the U.S. market since September 11th, 2001. Tuesday, the 16th, saw a change of events when the U.S. Government decided to rescue AIG, suggesting that maybe, this firm was "too big to fail." Regardless, the financial markets are now mired in a state of panic. Other financial institutions may face similar situations if they are not successful in raising additional capital, or in being acquired by a partner with capital sufficient to withstand the current environment. Merrill Lynch, for example, found a partner in Bank of America. Leveraged positions built up over the past 10 years are now in trouble amid a poor housing market and lack of liquidity and the current de-leveraging phase has, is and will be very painful.

The current environment has not only been challenging for financial institutions and investment managers trying to navigate the turbulent markets, but also for plan participants who rely on their retirement plan(s) as the main vehicle for their retirement savings. The prudent course of action for the plan participants is to review your investment strategy. What is your risk tolerance? When will you retire? When will you need this money?

A new course of action is only warranted if it is the right one. Evaluating one's own situation, diversification among asset classes, having the right mix and high enough default rates, is recommended, and leads to the positive action a participant can make. Bailing out of the markets and the 401(k) is the wrong action, which can be detrimental to future long-run retirement savings. Timing the market has proved to be futile and with current market conditions as they are, there is no clear direction as to where we are headed and for how long. With losses now over 20% from the market's peak last October, we are technically in a bear market. The good news is that as the bear market draws on it gives participants time to "get in" while markets are low.

The U.S. market, in particular, is dynamic and resilient in moving on from crisis after crisis throughout the history of its existence. While the Great Depression may be too long ago for most to remember, it wasn't long ago we endured September 11th, 2001 and the dot-com bubble. The implications surrounding the current turmoil should call on plan participants to focus on what they should otherwise be doing on a regular basis. Be mindful of the situation, but diligent about your investment strategy. Participants need to act in their own best interests while Wall Street recovers from yet another crisis.

**The chart to right illustrates a hypothetical example. Hypothetical amounts are compounded annually. Investor A (Jeff) contributed \$2,500 over first 10 years, investor B (Veronica) over last 10 years. Market returns represent the Russell 3000 Index. Performance of index reflects the unmanaged result for the market segment the selected stocks represent. Indexes are unmanaged and not available for direct investment. Past performance is not indicative of future results.*

