

# Financial *notes*

## INSIGHTS TO ORCHESTRATE FINANCIAL INDEPENDENCE

FROM THE OFFICE OF DR. SCOTT STRATTON, CERTIFIED FINANCIAL PLANNER (TM)

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Dear Scott,

The world breathed a collective sigh of relief to see 2008 end last week. In the US stock market, it was the worst year since 1931. Each January, we look back at the previous year and consider what implications it has for investors in the year ahead.

### The Year in Review

***The shock and awe that was the stock market in 2008.***

Catastrophic. Unprecedented. Disastrous. You can pick your adjective - or expletive - to describe the financial markets of 2008. I'm going to spare you the agony of recounting all of the year's events as the numbers speak for themselves.



#### 2008 total returns

S&P 500 Index -37%  
MSCI EAFE Index -43%

From stocks and bonds to commodities and home prices, global asset values declined substantially in 2008. In previous downturns, diversification helped moderate losses. During the Tech meltdown of 2000-2002, for example, bonds gained in value, so a balanced portfolio fared much better than an all-stock portfolio.

Unfortunately, in 2008, there was no place to hide. Investors lost money regardless of their diversification, asset allocation, or fund selection.

Treasury bonds were the only asset class that gained value, but today those treasury bonds are priced with interest rates so low that investors will almost certainly lose money when adjusted for inflation. This presents a conundrum for investors. Now that 2008 is behind us, will 2009 be more of the same? Read on for my thoughts on the year ahead.

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***The best compliment you can give me is the referral of a friend or family member!***

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## THIS MONTH, SCOTT IS...

I'm looking forward to a productive 2009. Each January, I set goals which help me chart a course for the year ahead. What are your goals for 2009? Even if you're not sure how I can help you, please let me know what you want to accomplish

## No Required Distributions for 2009

For 2009, there will be no Required Minimum Distributions (RMDs) from IRAs and other defined-contribution retirement accounts. This is being done to allow investors the opportunity to rebuild their account values in 2009 (hopefully), rather than being forced to make a withdrawal if they don't need it.

in the next 12 months, whether it's financial, professional, or personal goals. Why? I think the key to accomplishing any goal is accountability.



## The Year Ahead

Investing in a recession can be very difficult, and a lot of folks are understandably concerned that this market could prevent them from achieving their financial goals. As the recession continues into 2009, many investors are ready to throw in the towel and sit on the sidelines this year.



I think that would be a mistake. Here are my thoughts on how to handle 2009:

- 1) Will the stock market bottom in the first quarter? Did it bottom on November 20, 2008? These questions are just going to waste your time, because no one can time the market. Your investments in the stock market should be for long-term growth. Don't put money in stocks that you need for short-term goals.
- 2) The stock market is considered a *leading indicator* for the economy. Most data you hear on the news, such as unemployment, foreclosures, etc., are *lagging economic indicators*. They are reporting events that already happened. I have no idea when the stock market will start its next leg up, but I do believe that you will miss it if you're waiting to hear that the recession is over.
- 3) Cash is king. Before you invest in the stock market, you've got to make sure you have *at least* 3-6 months of living expenses set aside in your cash account. This recession is reminding Americans about the importance of saving. When your cash reserves are ample, it's easier to cope with the market's day-to-day gyrations.
- 4) Buy investments while they are "on sale". For younger investors, this is a great time to be building your nest egg. Don't stop your 401(k) or IRA contributions just because you lost money in 2008. Many "good" funds were down 40% last year. Dollar cost average into

your accounts for long-term growth.

5) For more seasoned investors, pay attention to dividends and cash flow. 2008 was proof that retirees who rely solely on capital gains for their distributions are in danger when the market declines.

6) Although diversification didn't help in 2008, that doesn't mean the concept is worthless. Stay diversified. Investors will have to re-think what is correlated and non-correlated in their portfolios.

7) Enjoy life! Your value as a person has nothing to do with your net worth. I refuse to be unhappy in 2009 if the stock market doesn't cooperate. (This step may involve turning off the news some days and reading a book instead!)

Yes, these are tough times, but every new bull market begins with a bear market. Keep sufficient cash, stay diversified, but don't try to time the market. Whatever the market and economy bring us in 2009, we will be here to help you navigate through these treacherous waters.

*Bull markets are born on pessimism,  
grow on skepticism, mature on optimism,  
and die on euphoria. The time of maximum  
pessimism is the best time to buy.*

**SIR JOHN TEMPLETON**

As always, please feel free to call me anytime with any questions or concerns. I'm here to help! Thank you for your business.

Sincerely,

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