

Financial *notes*

INSIGHTS TO ORCHESTRATE FINANCIAL INDEPENDENCE

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

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Dear Scott,

September 2008 changed the investment world forever. In the past few weeks, we've seen the nationalization of Fannie Mae and Freddie Mac, the bailout of AIG, the bankruptcy of Lehman Brothers, the sale of Merrill Lynch and Wachovia, and the seizure of Washington Mutual. It's absolutely shocking and unprecedented in our lifetimes.

In this month's newsletter we will look at some causes for the current turmoil and my thoughts on how and why investors should stay the course.

Leverage and the Economic Crisis

Understanding how Wall Street firms went bankrupt

CDOs, MBS, CDS... there are a number of complex financial instruments that are being blamed for the current credit crisis facing our financial markets. This is extremely confusing for the public, because individuals don't own Collateralized Debt Obligations, Mortgage Backed Securities, or Credit Default



Swaps. I'm going to try to cut through all this Wall Street jargon and explain how companies got into this mess.

While there have been problems with these investments, what made it so devastating for Wall Street was leverage. What is leverage? It just means borrowing money to buy more assets. The most familiar use of leverage is a home mortgage.

For example:

\$100,000 home
\$5,000 down payment
\$95,000 mortgage

With this hypothetical mortgage, you now control a \$100,000 asset with only a \$5,000 investment; we describe this as "20 times"

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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...

Many of you know that I play trombone in an orchestra. October is the start of our fall concert season. Our first program features Gershwin's *An American in Paris*. We perform each concert three times:

leverage. If the value of the house changes from \$100,000 to \$110,000, your investment of \$5,000 is now worth \$15,000. Even though the home value only changed by 10%, your investment went up by 200%. Leverage works great for assets that are stable or appreciating.

On the other hand, if the home value falls from \$100,000 to \$90,000 (a 10% drop), your investment will slide from being worth \$5,000 to negative \$5,000. That's the dangerous side of leverage.

This is what Wall Street firms have been doing, except instead of borrowing money to buy homes, they have been buying bundles of mortgages. They assumed these assets were safe investments and that they would not get hurt by the leverage. Unfortunately, many of these assets that were purchased for \$100 are now being valued at only \$25. That's bad enough, but when you use leverage on top of this, the losses can amount to billions. This is a root cause of the failure at firms like Bear Stearns, Lehman Brothers, and Merrill Lynch.

In case you are wondering, our firm does not do these types of investments. We do not have a firm account that we trade for profit. Our only business is - and always has been - to serve you, our clients. This is a tough and frustrating market, but we want you to know that client needs are our first and only focus here.

College Savings Seminar

Steve and I will be presenting a Seminar on College Savings Strategies on Saturday October 18 at 10am at III Forks Restaurant. As the cost of a college education continues to rise, parents and grandparents need to understand their options when it comes to saving and investing. It's never too early to start saving. If you'd like to reserve a seat at the event, or for more information, please call me at 214-276-0808. We look forward to seeing you there!

Time in the Market

Is it too late to sell and sit on the sidelines? That's a question we've heard a lot in recent weeks. There's so much bad news about the financial system. What should an investor do?

People are very focused on the short term. The danger is that



[October 16, Arlington](#)
[October 17, Garland](#)
[October 18, Las Colinas](#)

Give me a call if you'd like to go!



if we allow our investment strategy to be determined by emotion, we may miss out on any gains when the market starts to go back up. Unfortunately, individual investors often do the wrong thing at the wrong time. People's emotional inclination is to want to buy at the top of the market and sell near the bottom. It's greed / fear, euphoria / pain which can cause investors to make irrational choices.

To make money in the market, you have to buy low and sell high. It's very simple. It's not easy to do, but the concept is simple. When the market was at a 52-week high, how many calls did I get to sell? None. Now, that we're at a 52-week low, people are asking me if they should sell. I have no idea in the market will be higher or lower in a week or a month from now, but I remain confident that the market will be higher 5, 10, or 20 years from now. That's why I think a 52-week low should be viewed as a buying opportunity.

Everyone knows they should have a plan, but the tough part is sticking with your plan when the going gets rough. Here's my advice for long-term investors:

- 1) Don't panic and throw out a long-term strategy.
- 2) Stay diversified. Look for non-correlated investments.
- 3) Focus on spending time in the market. No one can pick the top or the bottom of the market.
- 4) Continue to dollar cost average into your 401(k), IRA, or other investment accounts.
- 5) If you own individual stocks (as opposed to funds), make sure you follow those companies closely!

Past performance is no guarantee of future results. Dollar cost averaging does not guarantee that you will not have a loss.

It's good to have money and the things that money can buy, but it's good, too, to check up once in a while and make sure you haven't lost the things that money can't buy.

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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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