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What to do now that the bill failed to pass?

I know that the Administration's \$700 billion rescue plan for getting banks out of the credit freeze-up was very controversial, but it's a disappointment nevertheless that it went down to defeat in the House today. I too have mixed feelings about the bill, but I'm also convinced that something needs to be done immediately or we'll see further erosion of confidence in the global financial system.

Contrary to the way much of the media portrays the bill as a "bailout for the fat cats on Wall Street," it was actually a measure to jump-start the credit markets, which recently froze up throughout the nation and the world. This paralysis of credit will cause the wheels of business to grind to a halt and therefore hurt consumers and businesses far worse than the "bailout" bill would have. My hope is that Congress will reconvene and hammer out another compromise with better hopes of passage.

Meantime, what do we as investors do? The markets plunged today by over 8.5% (S&P 500), and there's every indication of further drops ahead. First of all, as you all know from my repeated mentions of it, my philosophy is to ride out downturns, since a) you don't want to lock in losses and b) nobody knows when would be the time to re-enter the market. As you may remember, there is a phenomenon called "out of market risk." If you decide to bail out of the market at a time like this, chances are you'll miss the next big surge (e.g. when the pending legislation is passed in modified form). Even being out of the

market for several months can decimate your annual return if you miss some of the few big upturn days in the market.

My advice is that you turn away from the din of 24-hour cable news and let the worst of this crisis pass. Sit on your portfolio as it now stands, and wait for the recovery to occur, which it surely will. You know the old adage, investors should not sell low and buy high. That's what one would be doing if one panics and gets out of the market now. Keep in mind, too, that while there has been a decline in portfolios over the last several days, overall client portfolios have gone up by anywhere from 30% to 40% over the last 5 years. So if you've been with me that length of time, you're still way ahead of the game.

My prognosis is that this is a long-needed shakeout in the banking system, one that will leave us with a smaller, more prudent and risk-averse set of banking institutions. The days of Tom Wolfe's *Masters of the Universe* on Wall Street are over, and those institutions (e.g. JP Morgan Chase) that have been the most conservative during the mortgage boom of the last decade will prevail. This will be a good thing for our economy in the long run. In the meantime, just hold on, this may be a bit of a bumpy ride, as Bettie Davis famously once said. But this too shall pass, as did the crash of '87 and you want to be ready to take advantage of the next upturn when it comes. And it will come.