



FinishStrong by Design™

A newsletter designed to help you tackle the most pressing issues in today's increasingly complex retirement plan world.

Volume 1; Issue 7

The Month in Review: Volatility (with a Capital "V"!)

November 2008©

When we began publishing our **FinishStrong by Design** newsletter in February 2008, we made a pledge to help keep you abreast of current goings-on within the 401(k) world. Frankly, however, **THE STORY of 2008** has been the market's extraordinary volatility. We'll resume briefing you on Pension Protection Act updates, regulatory changes, fee disclosure mandates, etc.

But right now, **let us help arm you to be able to encourage your Employees & Partners to continue to invest in your firm's 401(k) Plan.** History says those who do will ultimately be rewarded.

[UPDATE: Friday, November 7, 2008](#)

Understandably, many Americans are extremely concerned about the recent declines in our markets. No doubt it has been a rough year in the investment world. Every day there seems to be new bad news and you may be wondering, is the end in sight?

If you'll allow me, I'd like to refer to an analogy that may be fresh in your mind - as it has played-out over the past 6 months. I'll start by making my point first, and then explain it. **My point is this: Our markets are efficient and rational in the long-run.** They will almost never be at equilibrium - rather, they will be somewhere to one side or the other. Currently, are we at an extreme end to this spectrum?

[Consider this -](#)

Six months ago, we saw the price of a barrel of oil skyrocket from \$120, to \$130, to \$140, to over \$150. Seemingly, this was all people could talk about in the investment world. In fact, a common response was: "Everything is different now, as China and India have become developed nations and this will FOREVER drive the demand for oil to a point that we should fully expect to see \$200 a barrel (and higher) as the norm". Our media and even some of the Wall Street-types they interviewed could easily justify why "this time it's different".

However, trading markets are rational in the long-run. As we talked to our money managers and to analysts for whom we have great respect, a common response was: "Oil may go to \$200 a barrel - but it won't stay there and it will eventually fall back to historic norms. The pendulum will swing back the other way." This seemed impossible to believe at the time! However, at last check, oil was trading at \$67 per barrel. More encouraging, on Thursday of this week I paid \$1.83 a gallon for gasoline, filling my tank with a twenty dollar bill! Yet \$4 per gallon gasoline is still fresh in all of our memories.

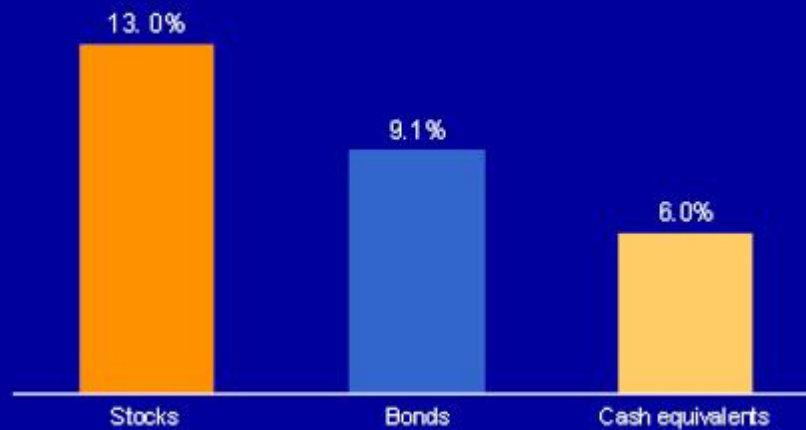
This brings me to today. There was - and still is - an enormous amount of excess leverage in our country (and others). Housing prices skyrocketed in just three years and the fact that almost anyone (regardless of credit history) could buy a house was flat-out excessive and indicative that the pendulum had swung too far the wrong way. Now that same pendulum has clearly swung back in the other direction and, as a result, we have tremendous upheaval in our credit and equity markets. It will take time for our markets to sort themselves out, but eventually they will and begin to behave rationally again.

No less an authority than **Warren Buffet** says, *"It is during difficult times like these that equities (stocks) return to their rightful owners."* Meaning that those people who don't panic and don't bail-out, will catch that pendulum when it swings back. The scary part is that we don't know when it will swing back and we don't know how much farther it will continue to swing the wrong way before it reverses course. But again, our markets have always proven to be rational in the long run.

We must never forget that, historically, stocks out-perform all other investment types. According to Ibbotson, during the 30-year time span from January 1, 1978 through December 31, 2007, Stocks - as measured by the S&P 500 - returned 13.0% per year on average, while high-grade Bonds returned 9.1% and Cash (T-bills) average 6.0%.

Long-term returns

Average annual total returns, 1/1/78 – 12/31/07



Sources: stocks — Standard & Poor's 500 Composite Index; bonds — Citigroup High-Credit Credit Index; cash equivalents — 30-day U.S. Treasury bills, Fidelity Associates.
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What does "BEAR MARKET" mean?

Respected author and financial expert **Nick Murray** recently defined his four essential characteristics of a Bear Market:

1. **Bear Markets are an organic, natural, constant element of a never-ending cycle.** Human nature being what it is, any economic enterprise worth doing is worth overdoing (greed); the capital markets will follow not just a similar but nearly identical cycle of euphoria and panic
2. **Bear Markets are as common as dirt.** Since WWII they have occurred 13 times - on average about once every 5 years. So at this rate, you'll see eight of them during a 40 year working career and six more during the average two-person retirement. Since their beginnings and endings are impossible to time, one needs to develop the financial maturity and discipline to remain invested through them
3. **A Bear Market has always - repeat always - been the temporary interruption of a permanent uptrend.** In about the last 60 years, stock prices have risen more than 60 times. Why? Because earnings are up 60 times and this being the age of global capitalism, they continue a long-term upward trend
4. **Equities' great volatility is the reason for, and the driver of, their long-term premium returns.** Volatility does NOT simply mean "down in a hurry". Rather volatility refers to the extreme unpredictability - in BOTH up and down directions - of stock returns in the short-run. You've likely never seen a bond that went up 20% in one year and then back down 20% the next, hence you never hear people refer to bonds as volatile. Stocks do this all the time. And the long-term premium returns of equities are an efficient market's way of pricing in that ambiguity. There are no "good" markets and

"bad" markets but rather one supremely efficient market.

Nick's paraphrase of Warren Buffet's quote above is as follows: *"A bear market is a period of time during which people who think this time is different sell their common stocks - at prices which will never be seen again - to people who know that this time is never different."*

This is a very challenging time for everyone. But world governments and finance agencies are coming together to do everything in their power to get the pendulum swinging back the other way. It will eventually.

[Harness the Power of Dollar-Cost-Averaging in your 401\(k\)](#)

It is imperative that you continue to make regular, recurring contributions to your 401(k) Plan. Regular investing, also known as Dollar-Cost Averaging, simply means making gradual, smaller investments over time - as opposed to a large lump sum. It means you are investing a set amount of money, at regular intervals, on an ongoing basis. If you are having contributions withheld from each paycheck to be invested in your 401(k) Plan, you are already taking advantage of this phenomenon. It will actually help you to acquire more shares during a time like now!

Consider the following example to see how this can work to your advantage in a topsy-turvy market -



[What else can you be doing now?](#)

- **Reduce or Eliminate Personal Debt.** There is no personal financial freedom like being debt-free.
- **Adjust Lifestyle to Reflect Needs v. Wants.** Evaluate your spending, especially discretionary expenses. It is a time of appropriate belt-tightening for many U.S.

- households.
- **Evaluate your Working Time Horizon.** Many Americans, for a variety of reasons (financial, rising life expectancy, etc.) are rethinking their notion of "retirement". What does this mean to you?

The Bottom Line

Your Employees deserve clear, consistent, timely communications during difficult times like these. Are you getting this from your current 401(k) Advisor? Triune would be pleased to support you in this effort. We have a virtual library of articles and communication pieces which you may access - **just ask!** We also have an intentional 401(k) Communication & Education curriculum which we deliver "live", on-site at your business - conducted by a Certified Financial Planner™, or a CFP®-in-training.

We look forward to the return of some "normalcy" in the markets - if there is such a thing. Perhaps you'll find this article to be of some encouragement to your Employees.

Thank you for the privilege of communicating with you during a time like this. We are here to serve you.

Until next time,

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