Arizona Republic

Estimated printed pages: 3

February 28, 2007
Section: Front
Edition: Final Chaser
Page: A14

INVESTORS URGED TO PUT DECLINE IN PERSPECTIVE

Russ Wiles, The Arizona Republic; Republic reporter Andrew Johnson contributed to this article.

Stock market investors got a nasty little reminder Tuesday that what goes up sometimes comes back down. Hard.

The benchmark Dow Jones industrial average slumped 416 points amid concerns that tighter lending conditions in China and Japan would upset the global apple cart, possibly tipping the U.S. toward recession.

The downdraft included a one-minute freefall of nearly 180 points around 1 p.m. Arizona time.

"This is a reality check for investors," said David Fernandez, a certified financial planner in Scottsdale. "People have become complacent. ... There's more risk in the market than has been perceived."

But the big decline wasn't a disaster in itself, merely putting the Dow back to where it was in early December.

"You have to keep it all in perspective," said Dana Anspach, a certified financial planner at Wealth Management Solutions in Scottsdale.

Here are suggestions for doing just that, assuming you're not depending on your stock market holdings to meet tuition, the mortgage payment or other urgent cash outlays in coming weeks or months:

Think long-term

It's normal to feel the need to take action after the market drops, but if you're investing for the long haul, doing so might be counterproductive.

Before cutting your stock market ties, consider how you might feel if prices rebounded with you on the sidelines. The market has recovered from international shocks that are hard to remember in hindsight, such as the 1997 Asian currency crisis, a thwarted military coup in Russia and the buildup to the Persian Gulf War.

Even Fernandez, who sees weakness ahead, cautions against overreacting.

Instead of selling all your stock holdings, he suggests complementing them with bonds, commodities and assets that move less dramatically or otherwise can cushion any blows.

Keep it in perspective

With the market trading at historically higher levels, it's natural that big moves, either up or down, will eat up more yardage. "Four hundred points may sound like a lot, but it's only about a 3 percent move," Anspach said.

In raw points, Tuesday's slump was the seventh worst ever for the Dow. But in percentage terms, it's nowhere near making any worst-ever lists.

Nor did most investors suffer even a 3 percent loss, as few people put everything they have into the market.

"Most people will be surprised that it's not as bad as it sounds on the news," said financial adviser Susan Linkous of Fountain Hills.

Look for opportunities

It's common to worry about further losses ahead, but it's worthwhile realizing that sudden swoons make stocks more appealing in terms of higher dividend yields, lower price-earnings ratios and other common measures.

Besides, not everyone has been buying stocks with both fists, which means there could be latent purchasing power down the road. Money-market mutual funds count a record $2.4 trillion in assets.

That's a source of cash that could be put to work in the stock market later.

Think big picture

If you're truly worried about a recession, take some chips off the table. It's not worth losing sleep or otherwise stressing over your portfolio.

Just be aware that the economy doesn't slip into recessions often. If the current slow-growth period doesn't worsen, it could provide key benefits by letting off inflationary steam and setting the stage for interest-rate cuts later.

Meanwhile, corporate profits continue to hold up, with fourth-quarter earnings up 13 percent on average over the prior year, Zacks Investment Research reported Tuesday.
