

# Financial Focus

## Time to Sell...or Time to Buy?

We're in a recession, which could be severe. Several financial services companies have either collapsed or been bailed out by the government. And the stock market is down about 45% (at the time of this writing on December 1) since hitting its peak in October of 2007. Is this a "perfect storm" that should blow investors out of the market—or is it actually an opportunity for investors to jump back in?

If you're an investor, your first impulse might be to join the "get out while you can" camp. After all, it's no fun seeing the market plunge hundreds of points one day, and then hundreds more the next day. And we keep getting hit by waves of bad economic news. What possible reason could there be for remaining invested in the market, or even adding more dollars to your current investments?

Actually, you might be surprised. Some strong historical evidence suggests that, during such a period as we are now in, you may indeed benefit by not only staying invested, but also by increasing your investment dollars in the financial markets. Consider this: In nine of the last ten recessions, dating back to 1949, the S&P 500 had moved up by at least 29 percent just 12 months after hitting its lowest point during the recession. Of course, as you've no doubt heard, past performance is no guarantee of future results, but it's interesting to note that the market eventually recovered after each recession.

However, no one can really predict when stocks will reach that low point. It's possible we've already hit it, but it's just as likely that we'll see further drops.

And yet, even if you can't say that we've hit a market low, should you sell your stocks to cut your losses, and use the proceeds to buy what you perceive as less risky investments? Before making this move, you need to consider some important facts. For example, if you pulled out of the stock market and purchased certificates of deposit (CDs) from a strong financial institution, you could reasonably expect that your principal will be safe and that you will receive the interest payments promised to you. But the interest rate you receive may not even keep up with inflation. Over time, your investment could end up costing you purchasing power.

On the other hand, if you were to remain invested in the stock market, and if it does follow historical patterns, you do have a chance of making up your losses. Will there be continued volatility in day-to-day price movements? Almost certainly. But keep in mind that, over the long term, a portfolio that contains a reasonable amount of stocks, along with bonds, government securities and other investments, gives you the best chance of achieving your financial goals.

And here's another reason to keep investing: As measured by the price-to-earnings ratio (P/E), stocks are currently inexpensive. If you buy more shares when prices are down, your increased ownership stake should become more valuable when stocks recover...as they have done following every bear market in the past.

It's tough to stay positive during a gloomy market environment. But the most successful investors are often the ones who have the courage to be optimistic when everyone around them is not.