

# Nashoba Financial Planning



Back in 1987 the stock market fell over 20% in one day after several other sharp declines. My husband's employer's stock fell over 50% in one day--his options became worthless and the shares we held lost half their value. My husband felt physically ill. Despite how he felt, we held on to our investments and over the long run that paid off.

Yesterday the market fell 7% and the S&P 500 is down 23% for the year. I don't feel ill, I feel angry about the lack of foresight that allowed this credit crisis to occur and now spill over into the stock market. Apparently others are angry enough that the Treasury proposal to add liquidity back to the credit markets got defeated in the US House yesterday. The market, which opened down, did not like the uncertainty and fell several hundred more points.

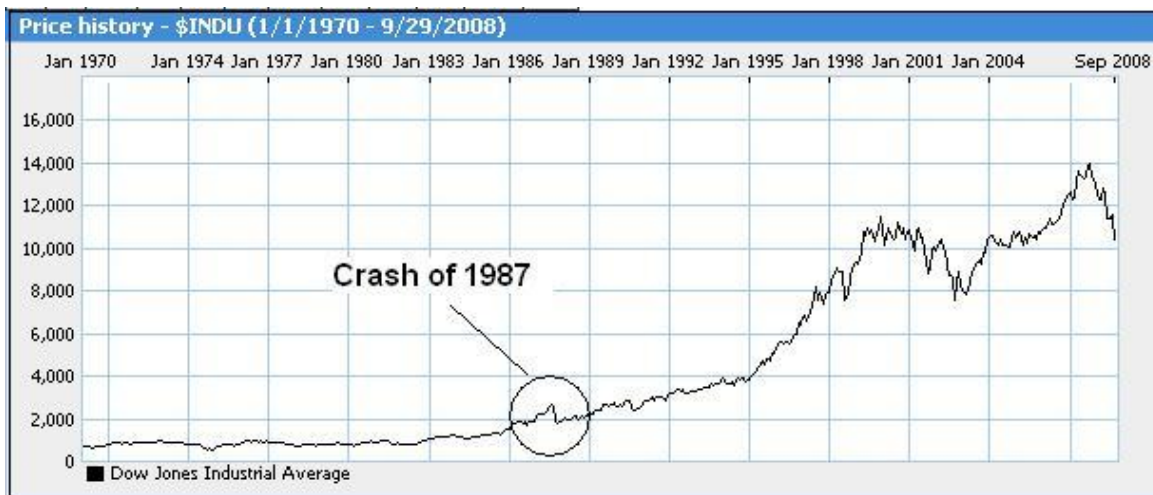
Times like these bring raw emotions to the fore--anger, fear and helplessness, to name a few. Emotions are the thing least helpful in guiding your financial decisions. What should guide your decisions? Here are a few principles to consider:

- Take a long term view. In the long term, the markets have provided a good return. In exchange for that return we take on the risk of these occasional bear markets (any time the stock market drops more than 20%). Two recent gut-wrenching bear markets, one in 1973-1974 and the other in 2000-2002 saw drops in the S&P 500 of over 40%. Those who kept their cool were glad they did.
- Get real about what to expect from the stock market. The 20% to 30% per year returns of the 1990's were a bubble; people like Warren Buffett see 6-8% as a more likely long term return for the stock market.
- Get diversified and stay diversified. We recommend that clients have a cushion for emergencies and if near or in retirement, have the money they need to live on in cash and laddered CDs or bonds. You don't want to have to sell equities at a time like this to meet an unexpected expense or to pay living expenses.
- Focus on what you can control and don't worry about what you can't. You can control how much you spend and save. You can't control what the credit markets or the stock markets do (and you cannot predict them either). Keep saving in your retirement plan. If you are buying stocks you are buying them at pretty low prices right now.
- Use this time to reassess your risk tolerance. If you really cannot sleep at night over the kinds of decreases in equities that we've seen, you should--at a prudent pace and time, when the stock market recovers--rebalance to a less risky portfolio. Don't forget that the day and month following a big sell off have been times of great appreciation in stock values.

If you have a prudent plan and a portfolio that is both balanced and diversified, do nothing in reaction to the craziness around us. Please call if I can help you in any way.

## The Crash of 1987 Looking Back

This chart shows the Dow Jones Industrial Average since 1970, and gives an amazing perspective on the Crash of 1987. Over a long period of time, the market has risen and even stomach churning drops are forgotten.



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