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# MONTHLY

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## What's Up With Volatility?

The past few months have seen numerous headlines such as these:

“Stocks Soar Most in Two Years!”

“Dow plummets 520 points in one day!”

Often, these contradicting headlines appear within one day of each other. One headline splash statistics citing doomsday markets, while the other celebrates significant upturns.

These are volatile times! Markets are leading economic indicators; as such, we should expect volatility to continue. Europe is still attempting to put their house in order, and since approximately 20-25% of profits of the S&P 500 companies are earned in Europe, their difficulties affect us here at home. Here in the US, the upcoming Congressional budget deadlines will re-emerge in November, this time with the addition of the deficit-reduction supercommittee, another unknown with stock market ramifications.

Given the prospect of continuing volatility, how should you navigate these markets? Although each investor has different goals, following are basic guidelines to help you through these jittery markets:

- Turn off the white noise! Don't let yourself be lured into the “sky is falling” mentality. Remember, because markets are leading indicators most of the news is already priced into the markets.
- Don't allow yourself to fall prey to your emotions. Having a comprehensive plan for your finances and investments allows you to make strategic decisions that are not based on market movements. Those who make decisions in the heat of the moment often make irrevocable mistakes.
- Historically, markets always revert back to their averages. This applies to both rising and falling markets. Falling markets create purchasing opportunities that eventually lure investors back into the markets. When fundamentals on good companies reach favorable values, investors will come back in. Considering this, the chances of markets ever falling to zero becomes highly unlikely.
- Cash truly is king in these markets. Saving your cash in over-heated markets will allow you to take advantage of opportunities as they present themselves in down trending markets. Those who are able to invest in down markets are often rewarded handsomely when the market moves back upward.

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## Volatility (*continued*)

- Some portfolios may benefit from the addition of defensive measures designed to reduce volatility. Examples include funds that “short” the market, i.e. they bet on market downturns and therefore produce gains during market corrections. Additional examples include investments in futures, currencies, real assets, etc.
- In taxable accounts, now is the time to evaluate any year-end taxable gains. Realizing losses now can be used to offset already realized gains, reducing your tax liability.

If you are going to purchase equities in markets like these, be patient and wait for good buying opportunities. Do your homework and look for solid companies with good competitive advantages that are trading at values off their norm. Investing in companies that pay their shareholders a portion of their earnings in the form of a dividend is an additional way to increase your potential for a positive return. And you have heard it before, but it is still true: diversification over a wide range of asset classes reduces your risk.

Most importantly, all investing should be strategic and be well aligned with your goals and your total financial picture. Reviews should be periodic and consistent, so that you are well positioned to weather volatile markets. In all markets, debt should be kept to an absolute minimum, and should carry a fixed rate. Debt can be detrimental, but most so in times such as these.

Finally, until our financial institutions are properly regulated, periods of intense volatility may continue. Regulation should be geared towards protecting the shareholder, not the creators of exotic and complicated products. A good start would be the re-institution of the Glass-Steagall Act, which mandated a separation between banks and investment firms, and (before it was repealed in 1999) helped control conflicts of interests that were instrumental in creating the 2008 crisis. Mandating that all financial advisors operate under a fiduciary standard, where client’s interest come first, seems like a no-brainer, but Congress is still arguing over the efficacy of implementing this.

Reforming these items would be a good solid step toward our Congress showing us that they are serious about fixing these problems. Until that time, being prudent with your finances, and limiting your risk is important to keep you on track to meet your goals.

Look for my new email formatted newsletter coming soon. You will still find “The Monthly” in PDF format on my website, but I’ll be using the latest web technologies to link resources through my email version and make it available for an immediate read through your email client.

Have a great month! Feel free to pass this newsletter forward. And, as always, thank you for your referrals.

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