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Geopolitics and Your Money
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Anyone following the news these days is bombarded with images of global unrest. Because we are a global economy, people wonder what the impact of this unrest will be on the stock markets and on their personal financial plans.

While no human is all knowing, those of us that are students of history have found that (especially in times of turmoil), the past can provide valuable perspective. The catastrophe of September 11, 2001, occurred approximately eighteen months into one of the worst stock market declines in over a century. It was a frightening combination of events when considering our personal financial lives and the livelihoods of our businesses.

Those within five years of pre- or post-retirement experienced significant anxiety as they worried about the potential derailment of their desired retirement lifestyle. Many people are again concerned about geopolitical turmoil and how it will impact their financial security.

Historically, capital markets have been more powerful than any single event. While the past cannot predict the future, the markets have always recovered from "flight-from-fright" downturns. Many factors affect the financial markets, causing short-term traders to pull their hair out. Nonetheless, prudent investors know that fear-induced selling often creates great buying opportunities.

Some of our clients have asked whether the current situation will precipitate a "Bear Market" – a stock market decline of 20% or more. We never have a short-term market forecast. However, based on current valuations, a lengthy significant bear market does not seem likely.

> History never looks like history when you are living through it.
> *John W. Gardner*

The mini-correction beginning in May presents us with an S&P500 (large US Stocks) that, according to the Federal Reserves model, is roughly 20% undervalued. At this level, history suggests that even if we do experience a "Bear Market," the pain probably won't last. Since World War II, we have experienced a "Bear Market" every six years, averaging a decline of 29% and lasting slightly more than a year.[1] A "Bear Market" is a normal phase of the economic cycle. The Bear normally evidences itself as a temporary decline from lofty valuations. If history is any guide, today's valuations are anything but lofty.

Moreover, short term volatility decreases as your holding period increases. Since 1926, there have been only 2 ten year periods in which positive returns were not achieved on the S&P500.

On a long-term basis, owning a diversified portfolio of high quality companies has proven quite lucrative.

As a financial advisor, part of my job is to deploy discipline and dispassionately analyze the daily noise and events in a rational, logical fashion. We consider the context of financial market history, historical politics and historical human reactions. Currently, the global economy is exhibiting relatively strong growth. Growth investments are long-term and will always fluctuate as market participants react – often emotionally – to current events.

We are saddened about the events in the Middle East and maintain a watchful eye on clients' investments in light of these events. However, nothing that happens geopolitically (whether here or abroad) gives us an excuse to quit thinking rationally. Come what may - we owe it to our clients, ourselves, and our families to be good stewards of our capital. This requires clear thinking and solid planning – especially when the world appears chaotic and dangerous.

1 Source: Ned Davis Research, period ending 12/31/05. Indexes are unmanaged and include reinvested dividends; one cannot invest directly in an index. For illustration only**.** Past performance does not guarantee future results.

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