# Letter to Clients, Oct. 13, 2008

By Ryan Zacharczyk, CFP, CSA, CRPC

Last week in the market has been one of the worst we've seen since 1933. In fact, I think it's fair to say that no one reading this letter has seen anything like it. This probably leaves most of you wondering, "What will come next?", "What should I do with my money?", and "Are we almost through this mess?".

As a financial advisor, I often feel it is my job to not predict the market (as many expect of me), but to help you develop a plan and then work that plan. Sometimes that means adjusting the plan if conditions warrant, but more often than not it becomes incumbent upon me to try to maintain a clear head of thought and prevent the client from becoming too fearful or too greedy. Fear and greed are the two emotions that are sure to lead to financial ruin. Just as I would and have tempered clients when I felt they are getting to greedy, reaching for returns without regard to risk, times like this implore me to remind people to stick to the plan. Short term volatility does not effect long term results, unless you act on that volatility by dodging in and out of the market. That usually leads to disastrous results.

I do however understand that many of my clients are getting tired of hearing me say, "Don't do anything", "We will get through this" as the market loses 20% in a week. For those of you who are looking for bold advice, the time has come. I am going to make a fairly bold statement:

Now is the time to BUY!!!

I know what you are thinking, "This guy obviously doesn't understand how scared I am", "Why buy now when it could be down another 20% next week?", "Time to call the men in the white coats".

Before you all think I have thrown my dislike for risk out the window, let me explain. I want to preface this buy statement by saying this is only for money that you do not need for 5+ years and that you will be comfortable watching swinging (at times dramatically) higher and lower.

I am no way saying that the market will not go lower in the short term. I am in no way saying that the economy is all roses and sunshine. I am in no way encouraging anyone to gamble money on a short term up move. My point in making this call is to state that if you completely took the emotion and panic out of the market, it is extremely undervalued. We have not seen valuations like this in the market since 1982. From that point forward, the market provided fantastic returns for over 17 years.

The surest way to lose money in the market is to try to be a momentum investor. We all look at the past week, month, year, or even ten years and see how poorly the market has done. In fact, if you invested your money in the market on Oct. 13 1998, you would be down money today....if adjusted for inflation. In ten years, you would have had a negative return. Why is that? Ten years ago, the valuation of the market were at tremendously high levels. You paid more per dollar of earnings in 1998 than you ever did in history. Dividend yields were low. You were paid less than a 1% dividend if you owned the S&P 500. People were very optimistic and hopeful that technology had changed the economy and the market. As such, the markets would never or could never go down. People didn't care about risk, thus they ignored it. Obviously, they paid a terrible price for that ignorance.

*Continued on next page*

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*Continued from previous page*

Today, pessimism is rampant. Banks are failing, brokerages collapsing, and nobody wants to take any kind of risk. The price per dollar of earnings in the S&P 500 is as cheap as we've seen in 30 years. Dividend yields are much higher than 1998 and fear is the emotion du jour. This is the time when people are rewarded for their risk, not in 1998. Do you think you will do better looking back from 2018 at 3.5% in a CD or Treasury Bond or in the market where dividend alone are paying 3.5% and generally increase every year.

Why do you think investors like Warren Buffett, who has been sitting mostly on a pile of cash for 10 years, is investing heavily now. One of my favorite sayings by Warren is: "You should be fearful when people are greedy and greedy when people are fearful".

Many of you are probably wondering "What should I do?" at this point. First, don't rush. If you have cash you have been holding back putting into your portfolio because you've been afraid, now is the time. If you are still skittish, consider dollar cost averaging (making regular monthly investments) over the next 3-6 months. Second, I again must caution against investing money you need in less than 4-5 years. That is what CDs and money markets are for. Third, If you are making regular contributions in your 401k or IRA, don't stop, in fact, now is a good time to bump them higher (if you can afford to). Fourth, if you have yet to make your 2008 IRA contribution, now is a great time. Finally, do not throw diversification out the window. Maintain the portfolio allocations you originally set in place before this mess. Allocations change with age and risk tolerance, not based on economic or market factors.

I know the timing of this letter may seem convenient. As I write this, the Dow Jones futures are pointing to a higher opening by over 300 points. I don't know if we are done with the selling (I can almost guarantee we are not) or if this is the first leg up on the way back to a fairly valued market. I do know that no matter how hard you try, you will not catch the bottom.

My job is to help people spot and take advantages of investment opportunities while managing their risk. It may be challenging to swallow this advice given that we are all licking our wounds from a 40% decline in the past 12 months...very painful. The point is to look forward, where are we going in the next 12 months and more importantly 5-10 years.

As always, if you have any questions, please don't hesitate to email or call me at 732-784-2380.

Sincerely,

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*Ryan Zacharczyk is President of Zynergy Financial Planning, LLC, a financial planning firm specializing in working with mature adults 50 years old and above. Zynergy provides comprehensive financial planning services for individuals 50 and older, helping them achieve their objectives in estate planning, investment management, tax minimization, and insurance planning.*