Santa Barbara Independent WHO. WHAT. NOW.

Taking Stock of Investments

A Brief History of Bear Markets

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"History may not repeat itself, but it does rhyme a lot." *—Mark Twain*

One of the worst financial environments in memory has challenged many investors' faith in the capital markets. Are the capital markets going to continue declining? How low can the housing market go? Unemployment is up, profits are down, foreclosures are up, confidence is down, the news just seems to get bleaker by the day.

What's next?

Money Talks

While past performance is no guarantee of future results, it does help to look at what happened in previous bear markets and see what we learn. Going back to 1946, the median S&P 500 bear market price decline of 21 percent has been followed by a 33 percent price gain within the next 12 months (source: Zephyr). (All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.)

So should you be in the stock market? The answer to that question is … maybe.

Some are learning that they simply don't have the stomach to ride out stock market gyrations, and that is okay. While a financial advisor like myself may be able to present all sorts of arguments in favor of remaining invested, investing is not done in a vacuum. As emotional creatures, we must acknowledge that we have limits beyond which we cannot navigate without paying a toll.

For example, investors may implement approaches that seems acceptable for their risk tolerance, then gasp when they open their brokerage statements. They may learn that they're not capable of riding out market cycles. What should they do? First, take a deep breath and allow the initial panic to subside.

Then ask yourself some questions. Perhaps you've decided that all of your investments will be gone soon if the current rate of decline continues. Might you be extrapolating, which is defined as "to infer or estimate by extending or projecting known information?" In other words, the market's been going down, and we therefore decide it will go down forever. Is that a reasonable fear?

Review your holdings. Are you well diversified? Do you have an asset allocation in place? Or is your portfolio concentrated in just a handful of stocks or bonds? What are your long term goals? Have your goals changed? How far off is retirement for you? Is there undue tension in the family because of investment performance? Might you be able to adjust the level of risk in your portfolio?

If you have a financial advisor, can they walk you through their investment process and do you understand it? Or are you taking investment positions without any overall plan? To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

Times like these do offer up some opportunities, but it's important to follow these steps:

• Re-evaluate your risk tolerance

• Refine your investment objective to align with your risk tolerance

• Stay focused on the long term

• Use times of market fear to position for future returns

• Stay broadly diversified

These are difficult times financially, but if you take reasonable steps now, then when the storm passes you can be prepared to move forward.

Kevin Bourke is a registered principal with, and offers access to securities through, LPL Financial, member FINRA/SIPC. The opinions voiced in this article are for general information only and are not intended to provide specific advice or recommendations for any individual.