

Cooler heads will prevail

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The newspaper headlines read: 'Roller coaster stock markets have investors feeling queasy' (The Globe and Mail); 'The stock market crash: History repeating itself?' (The Calgary Herald); 'Uncertainty continues to pummel stock markets' (Sudbury Star); 'The next market boom may be a lifetime away' (Financial Times). Interestingly enough, these headlines are from November 2002. One year later, the S&P/TSX Equity Index was up 20.8%; and two years later had soared by 40.7%.

It's important at times like this not to fall for the sensational headlines. Consider that the September 30, 2008 edition of the Edmonton Journal had a front page story, above the fold, titled 'Biggest market drop since 1987.' The article was accompanied by a picture of a securities trader with a facial expression that could only come from getting his kneecaps broken and learning that his dog ran away. Scary, yes. But the reality is that, as a number, it was large. As a percentage of the current index, however, it was tiny compared to Black Monday in October 1987.

The October 1, 2008 issue of the same paper buried the fact, deep in its Business section, that the same market had experienced, the previous day, one of its largest single day gains in years. Trading on human fear must be a great way to sell newspapers.

A large part of the current market slide may be attributed to many investors over-reacting to the news and headlines by panic selling. When investment fund managers receive an order to sell, they may be forced to liquidate securities to meet the request if they do not hold enough cash. Enough orders can force them to sell at prices far below true value. This then feeds the market slides and may cause more panic selling. And so on and so on.

Imagine for just a moment that when you woke up this morning and stepped outside, you had not read or heard any financial news for the last few months. Does it look like things have really changed? Parents are still driving their children to school before they head off to whatever it is they do with their day; long line-ups still rule at the drive-thru windows at Tim Hortons and other fast food chains; and large truck and trailer units are still delivering goods to our favorite retail outlets.

Warren Buffet, one of the world's richest men, acquired his wealth by investing. He didn't become wealthy by accident. Buffet says, 'A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful.' He also says, 'I haven't the faintest idea as to whether stocks will be higher or lower a month - or a year - from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over.'

While it may be tempting to get out of investment funds now because of recent market drops, how will you know when it's time to get back in? Don't forget that securities being sold at low prices are being bought by someone. It's always a good time to invest; right now just may be the greatest time to do so.

Want help with your financial plans?

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