

## Markets Reaction to S&P Downgrade of US Credit

The decision of Standard and Poor to downgrade US credit was not unexpected but definitely unprecedented and certainly ill timed. Based on the statement released by S&P, it was based on concerns that Congress has made inadequate progress on curtailing the Federal deficit (go to [www.standardandpoor.com](http://www.standardandpoor.com) for the full report).

As a result of this and economic concerns in Europe, there has been significant volatility in the stock markets over the last few days. This has made many people understandably nervous. Many of you are wondering if we should take any specific action.

So here are our current strategies (based on age and circumstance)

- 1) If someone is in or near retirement with low cash reserves – reduce stock positions to 50% or less of the portfolio by selling higher risk positions and shorten bond maturities (we have already done this for many of you).
- 2) If someone is under 45 or with 10-15 years until retirement, stay the course and make no changes (assuming there are adequate emergency reserves, no near term cash needs and good job security). Watch for investment opportunities made available by the stock market drop.
- 3) If someone simply can't sleep at night due to worries about the market, reduce stock positions by 20-30% but immediately start dollar cost averaging back into stocks over the next 6 months back up to the appropriate allocation.

Please note that we do not endorse option 3, however it is an option that is available. If you can't sleep at night due to worries about our economy, please call us to discuss it further.

Together with the firms whom we select to manage your investment assets, we will do all that we see prudent to achieve your investment objectives over your investment time horizon. Please feel free to call us if you have any questions or immediate concerns.

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P.S. Here are some interesting opinions, comments and articles:

Bill Gross regarding bond markets on 8/7/11: *These are markets where you do not want to be forced to transact unless there is a changed view of fundamentals or emergency liquidity needs to be raised. Instead, the key is to have the ability to react to exceptional opportunities.*

*"While the ratings change is a newsworthy event that will be with us for years to come, let us hope that the "silver lining" is greater attention to a longer term solution that will put the United States back on a path to economic prosperity.*

Burton G. Malkiel on stock markets (Wall Street Journal, 8/8/11): *Yes, we have problems, but the current situation bears no resemblance to 2008. And for those who believe the stock market reliably predicts a new recession, remember the famous dictum of the late economist Paul Samuelson: "The stock market has predicted nine of the last five recessions."*

Article from Vanguard Funds 8/6/11: “Expect the unexpected: Reflecting on a tumultuous period”

<https://personal.vanguard.com/us/insights/article/mcnabb-interview-08042011?email=returnarticle&oeaut=xeAKUvJRkc>

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