

December 26, 2008

Are you still practicing patience? This is a time for perseverance - the type of financial climate that separates disciplined investors from impatient ones. Barring an amazing Santa Claus rally, 2008 will end up as the worst year for stocks in about 35 years. That's what you have to remember: we've witnessed a once-in-35-years kind of year.

Chances are, 2008 will represent a severe abnormality in stock market history. The story of the stock market is the story of a long rise interrupted by inevitable downturns. Is the current downturn historic? By some measures, yes.

During 2008,

- Powerful Wall Street giants and thrifts failed or merged
- GM, Chrysler, and Ford faced possible insolvency
- Fannie Mae, Freddie Mac and AIG all had to be rescued
- Oil prices topped \$145 per barrel
- Yields on Treasuries reached all-time lows
- The Dow traded in 500-1,000 point ranges on some market days

Not a normal year. It might even stand as a once- or twice-in-a-century year in the annals of U.S. economic history.

We all have to be patient for a while longer. We stand at an interesting time right now: we could be waiting for another shoe to drop, or we could be slowly returning to some normalcy over the next 12 months.

The panic atmosphere of fall seems to be gone. The market is again responding to traditional indicators instead of outright fears. This year, the Dow sank to a low of 7,449.38.¹ We are in the mid-8,000s at present, and hopefully that 7,449.38 represents a trough.

A new administration brings new optimism, and even with the ups and downs of this year and the sorry state of the real estate sector, a bullish, opportunistic mindset is alive and well on Wall Street. This is, in the eyes of many, an ideal time to buy stocks and get in position for the next bull run.

The National Bureau of Economic Research's recent announcement of a recession gives us hope that we could be halfway (or who knows, even more than halfway) through the worst of it. Most post-WWII recessions have lasted 18 months or less.² In other words, don't expect this downturn to last forever.

Don't invest by the headlines. The nightly news seems to only focus on the stock market when it is either ferociously healthy or in crisis. "Business as

usual” doesn’t merit much coverage. But much wealth has been built in this country through slow and steady investing across calm markets.

Look beyond momentary declarations and keep your eye on your long-range financial objectives, not the latest headline. If you base your investment strategy on headlines, tips, the pulse of day trading, and stock picking, there is a very good chance you will end up confused, frustrated, and far away from the solid long-term strategy you started with. In your impatience, you may miss the best market days to come.

Consider how stocks rebounded from the last bear market earlier in this decade. On June 30, 2003 the DJIA closed at 8985.44, the NASDAQ at 1,622.80, and the S&P 500 974.50. Four years later, a bull run had taken those indices 27-43% higher.³ This ground was lost, but it could be gained again when this recession ends.

You can’t stop investing. Or rather, you shouldn’t. Mathematically speaking, you aren’t going to retire on the money you save today for retirement; you’re going to retire on the interest and compounding earned over time on the money you’re saving. Time and continuing investment contributions promote growth; withdrawals and inactivity do not.

Now, some year-end ideas for improvement ... in your financial situation, that is.

Harvest capital losses. December is a good time to sell loser investments. You might consider practicing a little tax loss harvesting and getting rid of stocks or mutual funds that are underwater. The capital losses can be used to offset capital gains and to effectively lower your tax bracket; any such losses over \$3,000 can be carried over to next year.

Put idle cash to work. Do you have tens of thousands of dollars earning 1% or less annually in your checking or savings account? Could it get a better return in a short-term CD or a Treasury? Yes, yields are low, but probably still higher than what your savings or checking account offers you.

Have you fully funded your traditional IRA, 401(k) or 403(b) plan? Why not see to that before 2008 ends? That can help you to lower your current taxable income and put more money toward your retirement savings.

You could make a charitable gift. Check with your tax advisor to see if it makes sense for you. You could get an immediate tax break for your contribution, and if you gift stocks or other appreciated assets, you’ll avoid having to pay the capital gains tax you would if you just sold the asset. In addition, you are removing that asset from your taxable estate.

How about paying your January mortgage payment this month? If you are in a position to do it, you might want to consider it, because it can give you a bigger deduction on your mortgage for your 2008 taxes.

Have you used 100% of the money you set aside in your FSA? If you have a flexible spending account at work, you might as well. That is use-it-or-lose-it money. Spend it on qualified medical expenses or medications if you can.

Do the little things, keep the right attitude. Remember that you are investing for tomorrow, not this moment, and that time is on your side.

These are the views of Peter Montoya Inc., not the named Representative nor Broker/Dealer, and should not be construed as investment advice.