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Four Steps Not To Take Right Now

As the tough economic times push on and stock prices fluctuate, it's hard to know what moves to make as an investor. Though the panic you probably felt during the early months of the bear market may have ebbed, your account balances still aren't fun to look at, and the direction of the market is anything but certain. Was the spring-summer market rally the first leg of a new long-term bull market? Or will unemployment, lackluster corporate profits, and a shift from consumer spending to saving postpone the recovery and keep share prices volatile?

Definitive answers may be a long time in coming. But in the meantime, there's no reason to abandon the fundamental investing principles that have worked for you in the past. Here are four moves not to make now.

1. Keep your money idle. It's tempting to sit on the sidelines while the markets sort themselves out. But there are two problems with that approach. The first is that if you're going to reach your retirement goals, you'll need growth in your portfolio, and that means putting your money to work in suitable investments. The second is that if your plan is to sit out until markets improve, you'll inevitably miss much of what the market provides. The best time to buy is when the market is down, not when you feel comfortable, and trying to time your entry and exit into the market almost never works.

2. Chase the golden goose. Trying to get well in a hurry by jumping on the bandwagon for high-flying stocks or high-yielding bonds is another common investing mistake. The best time to invest in a particular sector or category is before a market run-up, not after. You'll probably be too late to the party if you invest heavily when substantial gains have already been realized, and you may be left holding overvalued investments vulnerable to sharp declines, especially while the markets remain volatile.

3. Rely too much on "safe" investments. Diversifying your portfolio with reasonable allocations to low-risk, low-return investments such as bonds and money markets is smart, but veering too far in that direction can be just as damaging to your long-term prospects as chasing hot stocks or trying to time the market. "Safe" investments bring their own risks, including a loss of value when interest rates rise and inflation picks up.

4. Stop saving for retirement. When times are tough, paying bills may have to take precedence over saving. But your future needs are also crucial, and continuing to contribute to your 401(k) or other retirement plan—even, or especially, if its value has plummeted—is the only way to ensure that you'll reach your long-term goals. These turbulent times too shall pass, and it only makes sense to keep working toward your ultimate objectives. In fact, dollar cost averaging into your 401(k) enhances returns when the market drops—a reward for continuing to save.

3rd Quarter Earnings

So far, 199 companies, or 40% of the S&P 500, have reported results. Profits are currently on track to have fallen 18.2% versus a year earlier, according to the latest from Thomson Reuters. Revenue is expected to have dropped more than 10% from a year ago. Of the companies that have reported, 81% have beat expectations, 7% have met and 12% have missed.

October 2009

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Market Watch

	10/23/2009	YTD
DJIA	9,972	+13.63%
S&P 500	1,079	+19.49%
NASDAQ	2,154	+36.59%

Recent Positives

Manufacturing is ramping up – Output has surged at a 13.6% rate since June, a far more rapid pace than the 1st three months of recovery in the last two recessions. Moreover, the capital spending component of the Manufacturers Alliance quarterly outlook just had its biggest annual increase on record.

Will inventory depletion put bounce in recovery's step? – Inventories have plunged at a 10% annualized rate the last 9 months, a pace that's more than 2 times the record declines in '75 and '83 – steep recessions followed by strong recoveries.

September housing starts and home sales big positives – Single family starts were up nearly 4% and, for the 3rd quarter, rose at an 86% annualized rate, the most since '91's 2nd quarter. And existing sales surprised significantly, mostly because of 1st-time home buyers.

Source: Federated Investors, Inc.