Crash Boom Bang!

By Michael E. Chadwick, CFP®

Whether it's a fender bender, a scratch, a dent or a simple scrape against something, most of us have either had our fair share of incidents with our rides or watched them in real life or on television. Some of us have even lived through a complete loss of our rides in accidents that are really bad where the car is destroyed and not considered fit for driving. After an accident, our rides end up at a body shop, where they do their magic and restore the car to new. We all know not all body shops are created equal – some of them take short cuts and don't make the structural repairs and just fill the car with cheese, bondo, fiberglass, etc. and when it comes out of the shop it looks great, but is structurally unsafe. The short cuts end up rearing their ugly heads in just a few months, maybe a year or so with cracks and other evidence that makes the quality of the work apparent. For high class shops to truly restore, they tear the cars apart to reveal any and all damage, completely rebuilt the vehicle from a structural standpoint and then replace any sheet metal with new parts, and then just do some cosmetic finishing with the cheese, bondo, fiberglass etc. so it looks great just like the factory does. Those jobs last as long as original equipment, if not longer as they're not as old and sometimes of better quality than OEM (original equipment manufacturer.) Even when the car is considered a total loss and is "totaled" by the insurance company, it has a potential future too – firms specialize in rebuilding these wrecks and although they have salvage titles, sometimes they too can be rebuilt to almost as good as new. Sometimes these rides are never the same so it's imperative to be very careful on these jobs if you're buying a ride with a salvage title.

In the financial world we have an amazing parallel to fender benders and they're called crashes not accidents. We're in the midst of a market crash right now that's intensified in just the past few weeks. The past year has been rough all around the world, the global stock markets are down anywhere from 40 – 70%. This is indeed painful today, but a normal part of the investing process. Just like with your ride, the market has varying degrees of crashes, some minor and some major. How you've constructed your financial plan will dictate how much pain you'll endure during such times and whether or not you'll survive the storm. If you have a professionally managed portfolio constructed of a well diversified mix of stocks, mutual funds, ETFs, or unit investment trusts you're likely going to be fine long term. If you're trading online by yourself and own just a few stocks that you bought without any real due diligence, or just from reading some blogs or online bulletins or listening to a friend or neighbor, you may be in real trouble now without the hope for survival. Professionally managed portfolios rebound as a car would be repaired by a high quality shop equal to or better than OEM. Many individually constructed portfolios will die a painful death as a car would that was repaired by a low quality shop – it may look pretty but over time it'll fail to work and be useless without any value. Most people cannot afford this with their financial futures. This year we've seen the collapse of many giant institutions people thought were bullet proof and too big to fail, firms such as Lehman Brothers, Bear Sterns, AIG, Fannie Mae, Freddie Mac, Washington Mutual Bank, Wachovia Bank etc. We'll likely see many more collapse before the dust settles and right now the thing to do is to think intellectually, not emotionally. The fear and panic that are in the air today is not the end of the world, it's a great opportunity to make real money moving forward. It's in times like these that all of the money is made, it's not realized for a while but it's made right now by knowing what to buy and buying at these depressed levels. The craziness in our markets today, with their seemingly distressed levels, actually makes them the safest and the best place for your capital. Many people's knee jerk reaction is to pull out when things get bad, while people like me are buying in – exactly what separates successful investors from amateurs. When people are fearful be greedy and let's face it, people don't get much more fearful than they are today so being greedy means buying in right now. Also, at times of maximum pessimism is the best time to invest – also very true of today's climate. You must keep your investments age, risk and objective appropriate so not everyone should be buying into all stocks today – many of you need bonds, cash and other alternatives because of where you are and what your goals are. Everyone should have some money in stocks today, perhaps a lot more than you had a year or two ago. How is your portfolio built – all new components like OEM or full of cheese?

Mike Chadwick is the president of Chadwick Financial Advisors and has been helping clients with financial planning since 1994. Mike specializes in taking complex financial issues and explaining them in plain English so people can make conscious, responsible decisions. Mike's visual financial modeling system makes decisions easy and provides confidence because it illustrates how financial decisions you make today will take you where you want to be tomorrow. He can be reached at 860 673 1942 or mike@fiscalwisdom.com.