



October 2008

Volume XLIX

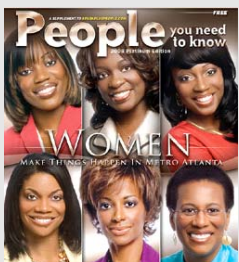


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The Anatomy of a Stock Market Panic

As this article is being written, the stock market is in the midst of one of the more rapid selloffs in recent memory. Not only in the U.S. but all across the world, there have been multiple consecutive days of losses, and each day more investors are taking flight from the market. As we have seen before during stock market crashes, the downward trend in the market begins to feed on itself as investors go from a state of concern to worry, and then into panic. Although the value in the stock market is a function of company fundamentals and corporate profits, it is also to a large extent driven by emotions and psychology. The psychology is evident time after time during a market panic like we are seeing today. Investors see increasing losses in the market and in their own portfolios and fear sets in because they feel that those losses are going to continue indefinitely. So to keep from losing everything they exit the market and move their money into "safe places" like cash, bonds, or CD's. Often times the intention is to re-enter the market once it begins to turn back around. The difficulty is that there is no way of predicting when the turnaround will come, and it usually happens quickly and in several short spurts. If the investor misses those spurts, they miss the biggest opportunity to recover their losses.

The conventional wisdom says that if you are investing for the long term, you should keep your money in the market in spite of the panic going on around you. Unfortunately conventional wisdom is hard to maintain when your financial future is at stake. That wisdom, however, comes from evaluating the history of the market through its many up and down cycles. There have been many cases in the past where it felt like the sky was falling, but in every case the market found a bottom and in time bounced back to higher heights than it had seen before. Many people say, "but this time it's different" because the circumstances that have caused the current situation are far different than what we've seen in the past. It is true that we have a different set of circumstances now than in the past, but it is also true that there is usually that same sentiment of this time being different every time the market takes a turn for the worse. That in large part is why panic results: because you feel like things will never be the same again. What we have seen over and over is that part of the market cycle is having downturns, sometimes very severe, but once the panic finally ends and the investors that could not hold out any longer leave the market, the recovery begins. The time it has taken to recover has varied, but historically there has always been a recovery (see examples in our September, 2007 issue). And when that recovery occurred, those who stayed in the market were able to see the benefit, but there will also be those who take advantage of the situation and put more money in at or near the "bottom" and see even greater returns on their investment.

The real question that you have to answer is one that should be addressed before you ever put your money into the market, and that is: "Are you in it for the long term?" If the answer is no, then it is not a good idea to have your money in the market. While the temptation is there to make money more quickly than you could in other places, the market is not the place for short term money. This is why it is so important that you have an investment strategy that caters to your specific circumstances and needs. When you take the time to define what your investment goals are, and there are likely different goals you want to satisfy, you can establish a strategy that addresses each of those goals individually but is coordinated to work well together.

If you have been tempted to panic in this current financial turbulence and are not comfortable that you have a sound investment strategy, now is the time to get help from an investment professional who can help guide you through these challenging times.

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