As seen in the

PITTSBURGH BUSINESS TIMES

August 9, 2002

A reasoned strategy for recovery of your investments

Commentary

Robert Fragasso

The market downturn has many investors spooked. Even the best-managed portfolios go down and the severity and the duration of the downturn unnerve even the best-educated and most experienced of investors.

Yet, you must stay the course for the expected market recovery that has always occurred after a downturn.

How soon will your portfolio recover and will it recover enough to make you whole again? Will retirees be able to continue to take your needed income without depleting assets?

NATURE OF A RECOVERY

Viewing every downturn from 1929 through the current dip gives comfort. In each, we theoretically invested at the top of the market, suffered the downturn and then calculated how long it took to recover. The conclusions: Balanced portfolios of bonds and stocks suffered less downturn than stock portfolios, and they recovered more quickly.

Viewing eight normal downturns during the 20th century, and three abnormal, with more severe downturns, all portfolios recovered, and usually within the first year or two.

Investors who stayed invested reaped substantial gains in every case! Only investors who sold at the bottom lost.

Balanced portfolios offered less risk than stock portfolios and enjoyed the subsequent gains in the recovery. Values were up even with portfolios containing a portion in small company stocks.

POSITIONING FOR RECOVERY

Asset allocation modeling of a portfolio utilizes all of the asset sectors given your objectives, time horizon, family responsibilities and risk tolerance level. Stay with your model. It will serve you well during the recovery just as it did during the decline and in the strong markets that preceded the decline. Anyone without an appropriate model must have one created.

Viewing every downturn from 1929 through the current dip gives comfort to spooked investors.

The alternative is a prescription for failure, and includes mistaken attempts to catch hot market sectors, time market movements or other sensationalized theories. No one has clairvoyance. The only appropriate answer for up and down market periods is asset allocation modeling. That's why the Noble Prize was awarded to economic research that linked asset allocation with portfolio success. Asset allocation is a chapter in the finance textbooks. There are no chapters there titled "Clairvoyance."

Will this recovery be different? Different than the Great Depression or World War II? Different than? Different than a major recessions caused by a complete foreign oil embargo? Different than downturns caused by corporation price-fixing scandals, and by political misdeeds and corruption? How about Pearl Harbor, Korea and Vietnam or a country torn apart by political and racial unrest? What's different now?

Life goes on. The economy goes on. The recoveries inevitably occur.

There is talk of a 10-year downturn. We've experienced much worse times in the past, but we've never experienced a ten-year downturn.

The Japanese economy has experienced a prolonged downturn, but that is not the U.S. economy with its freedoms and financial diversity. Japan is controlled by centralized banking and trade companies.

The likelihood of a prolonged downturn in the United States is not supported historically or by the fundamentals of our current economic circumstances. We have the lowest interest rates in 40 years, a strong financial system and our economic productivity is the highest since 1983.

Is everything rosy? Of course not. That's why we're having a downturn. Some people did bad things, and will be punished. Systems will be corrected. Life and the economy go on.

THE FUTURE

What does the future hold? Medical advances beyond our current imagination. New generations of microchips and medications coupled with more efficient ways to conduct business in manufacturing, retailing and in finance, transportation and communications.

Don't miss future potential by projecting short-term events forward. Your future is much brighter than a narrow focus on today's happenings.

Also, do not over estimate your ability to be clairvoyant. The investors who panic today will not possess the capacity or the will to re-enter the markets at the right time.

Tomorrow's future is on sale today. This is the time to participate at very competitive pricing. Don't wait until the inevitable recovery has happened so that you're comfortable enough and then must pay full price.

Today is particularly unnerving for retired folks who are drawing from their retirement assets.

However, as long as the funds withdrawn are coming from income, the fluctuation in principal is unnerving, but not detrimental to your ability to live. If you are taking the interest from your bonds and dividends from your stocks, leaving the principal to recover, you are not jeopardizing your financial future.