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Spoil the child

By: Lawrence E. Howes, MBA, CFP®

We have all seen those snot-nosed kids who do a great job embarrassing their wretched parents or more prophetically, grandparents, by shrieking and kicking at said guardian over the denial of some toy or treat. The noise is extreme and the pain, for all of the adults involved, is immense. Many of us who have been around awhile usually conclude that the child needs to learn how to behave and naturally blame the poor victim, of the abuse, for the problem in the first place. The parallels of the spoiled child and the current investment environment are profound

Watching this spoiled and obnoxious market has been a painful experience. Every time the market doesn't get something it wants, like the correct phraseology in a politician's speech, or the incorrect tone of concern voiced by a policy maker, or worst of all, criticism of the market itself by a loyal investor, the market just drops to the floor and begins to wail. Flopping arms and flailing legs have been the norm, and the human cost in pain and lost wealth has been horrific. There have been good financial reasons for this correction, but most of that blood was let when the Dow was around 8,500. What we have now is a real brat who relishes making an even bigger scene.

When the Dow went from 8,500 to 6,500 it tested the bottom and discovered a new bottom - oh joy. Fortunately, the market was more fearful of the politics of the various stimulus and asset purchase plans, and less about the fundamentals in the economy. Fear is a driver for sure and the kind of driver who belongs in a demolition derby, not out on the streets with the rest of us.

I hate to see the worry and the painful expressions on the faces of people as they suffer this correction. It has been painful as we see the numbers drop and it is understandable how some can see no end in sight to the carnage. The human and financial costs have been profound.

This financial slaughter will end, and with it will begin a recovery in the markets before the economy itself turns around. The market is by nature a leading indicator and it will start turning positive when the fear and trepidation evaporate. No one can predict the future, but it is reasonable to say that sometime in the near future the market will start its long climb out of this hole. It will take some years for most investors to get back all the money that was lost. Unfortunately, some will never get their money back, because someone took it and spent it on toys. For most of us however, it is more a question of watching our money grow back and remembering that if you spare the rod you will spoil the child.

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