So you would have expected that after the debt deal was signed, the markets would have rallied, but in fact most of the loss happened Thursday, in response to not much in the way of economic news. Panic is the only word to describe it. Once the markets started trending down, memories of the 2008 meltdown triggered reactions based on fear, not logic. Of the 500 stocks in the S&P 500, only 3 of them were up Thursday, 8/4. Friday was more emotional though less negative, as the Dow Jones Industrial Average swung wildly over a 400 point range, before finally closing up 60 points.The S&P 500 closed down less than a point. On Monday, after Friday night's debt downgrade, the S&P 500 dropped 80 points or 6.6% with none of the 500 stocks moving up.

So, what should we do now? Look at the economy and companies. Earnings for the S&P 500 are up roughly 15% from a year ago. The economy is moving very slowly, but it is growing. No one knows what will happen in the next few weeks, but this market will turn around, and probably quickly. To quote Warren Buffet from the March 6, 2007 shareholder's meeting, "Be fearful when others are greedy, and be greedy when others are fearful."

Jim Kramer made the point today (8/9/11) that the recent market is a lot more like 1987, when the market, fueled by program trading, dropped 40% based on fears of a recession which never actually happened. This was another hiccup and great buying opportunity. Friday and Monday I was buying stocks.

Other things to do:

If you haven't refinanced in a while, look into it now. Quickly! Bankrate.com tells us that the national average mortgage rates are 4.33% for a 30 year mortgage, 3.50% for a 15% mortgage, and even a 30 year jumbo is at 4.99%. I would not expect rates to stay down for long.

For non-clients who arrive at an appointment with this letter we will waive our normal $75 initial consultation fee; investment management clients aren't charged for consultations.

William C. Jerome, CFP
Capital Financial Services, LLC
(518) 399-3903