

Lessons from a Theme Park

By Mark Sievers
Financial Advisor
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Have you ever watched people exiting those nausea-inducing rollercoaster rides at theme parks? Some stumble down the steps as they try to regain their balance, others look deathly pale, the worst are physically sick.

Yet other rollercoaster riders seem to retain their sense of equilibrium amid the unpredictable twists and turns. Some avoid motion sickness by focusing on a distant point on the horizon and reminding themselves that even the scariest ride, however terrifying, is finite.

This is an approach that investors would be well advised to take at a time of extreme volatility in the financial markets, as we have seen in the past year. To be sure, the daily churn of the markets can be unsettling if you focus on them too closely. But if you keep in mind that these extreme ups and downs will pass, if you stay focused on your long-term investment goals and if you keep your emotions in check, the volatility can be a lot easier to stomach.

Think back and consider the behavior of markets from just a few years ago. One particularly rocky period went from around the middle of 2001 to the end of the first quarter of 2003. During this time we faced the 9/11 attacks, the Enron and WorldCom accounting scandals, fears of a recession, and the build up to the Iraq war. We were just recovering from the tech wreck which seemed both turbulent and disruptive. This was a volatile, stomach-churning time and you could have been forgiven for calling out 'stop the ride, I want to get off'!

This tumultuous period lasted only about 18 months and really should be viewed in the context of a longer time frame. If you look instead at a longer period and use the context from 2001 until now, then the "wild" fluctuations of that time fade to small blips compared to the rise in the market since then.

A bit of distance makes a huge difference. What looms large on a short term basis becomes just part of the usual movements from a distance. This observation applies not only to the various indexes for the US markets but also to those for Europe and Asia.

My comments are not to dismiss the significance of events at that time. No one should downplay the momentous nature of the geopolitical, economic and corporate events of that time or the real suffering they caused. But this

example does serve to show that if you want to secure the returns of capital markets, you need to keep your nerve through volatile times.

The fact is that markets, like economies, go through up and down cycles. We have been in a downward cycle since late 2007. We do not know when this rough ride will end. We are seeing turbulence in Europe and the difficulty the EU is having in making very tough decisions. It is not yet clear what their solution will be. What is clear is that the issues are well known. We should not react on a daily basis as if the situation has been just discovered. Do not expect a solution to occur over a few days. This is the real world not a TV drama over in one hour. These situations developed over many years and the changes will require years to be effective. We do know that the current market problems will not last forever. So keep your eyes on the long term and avoid motion sickness.