



What goes up must come down?

by Angelo R. Imbrogno

As investors, we've enjoyed above average returns for

the major indices over the past five years. With history as our guide, the S&P 500 grows at an average annual rate of 10% over a rolling 10 year period dating back to the 1930's. Since March of 2003, the index has actually realized an average annual return of 18.76%! The Dow Jones Industrial Average had similar results with a cumulative return of 86.59% from the March 2002 low of 7,591 to the October 2007 high, of 14,164! – Source: Yahoo Finance.

A word of caution...Don't forget that the stock market can and does move the other direction...lower.

Higher Prices

How long can commodity prices increase without

having an adverse affect on consumers and the economy? For example, crude oil set another record high of \$100 per barrel in 2007. If you listened to most economists, the rhetoric was deafening as to how resilient the US economy was and that higher prices wouldn't affect a strong economy. With many other commodity prices at record highs, and evidence of a slowing economy, it seems as though prices really do matter and indeed affect consumers and their buying decisions.

Unemployment Rate

In January, the U.S. Department of Labor reported the unemployment rate rose to 5.0%, the highest level in three years. 2/3 of U.S. GDP is driven by you and me, the consumer. With less people working, one begins to realize how quickly this also has a negative impact on future growth. A higher unemployment rate simply means there are less people spending money and also contributes to a slowdown.

Interest Rates

Reducing rates in the long run is positive for the economy and the stock market, but is usually a sign of weakness in the economy. Through the last 'tightening' cycle, which ended in July of 2006, the Fed raised rates 17 times. Many argue that the Fed was too aggressive then or too late now to reverse its effects. Either way, the economy has shown signs of weakness and now the focus is back to stimulating growth.

So What Do I Do Now?

I have a few practical suggestions to potentially help navigate possible downturns in the stock market.

- 1. Communicate with your advisor.** Ask questions about specific investment strategies for possible downturns in the stock market. If you're not satisfied with the response, or don't get one, get another advisor.
- 2. Reduce equities.** Principal losses of your portfolio are terribly destructive to your overall performance and should be managed closely.
- 3. Increase low risk investments such as bonds, CD's or cash.**
- 4. Take action.** You don't have to convert your entire portfolio to be effective, but start somewhere and continue to monitor your situation as events unfold.



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