

Should You Worry About Terrorism Before You Invest?

By Neal Frankle, CFP®

You may recall that following the 9/11 attacks, the stock market closed for several days. It re-opened on 9/17 with the Dow down 7%.

That was it for one couple I know, Mary and Frank. The attack on the country, coupled with the attack on their personal finances, was too much. They were worried terrorism would sink our economy and stock market like the Titanic, so they sold all their market investments.

Was it the right move?

Nope. In less than two months, the situation changed drastically: Within 53 days, the market recovered all it had lost. And by the end of the year, the market was 12% higher than it had been when Mary and Frank had bailed out. Now their greatest problem was not having a strategy to get back in. In their uncertainty and confusion, they became paralyzed by fear of making the wrong move again.

You're well aware that September 2001 was not the first time the U.S. weathered catastrophe that directly impacted investors. Among other events, we've been through a depression, World War II, the Cuban missile crisis and an assassinated president.

Yet the stock market has continued to thrive.

Despite market resilience, a lot of people lost a lot of money. It might be tempting to think that if investors had been more informed about what was happening geopolitically, they could have headed off personal financial devastation. But that's a sucker punch. Now that we can be

acutely aware of every twist and turn in the world, does it make sense to invest based on international political and military posturing? Not if you want to make money.

Here's another example. Shell-shocked, Janice met with her financial advisor in March of 2003. She'd seen the market tank through the horrific bear market from 2000 through 2002. She'd read sordid tales of corporate theft that cost investors billions and, in many cases, their retirement. She was worried by accounting scandals. And, of course, there was this problem in Iraq.

Janice was convinced that any one of these events could mean disaster for her investments. In her mind, all of these things happening at the same time meant certain financial catastrophe. Demoralized, Janice sold all her holdings. And from an emotional standpoint, you couldn't blame her.

But from March of 2003 through the end of 2003 the Dow rose 32%. Janice missed out completely.

Our market has survived everything thrown at it. Unfortunately, we'll most likely always have a crisis to overcome. The current terrorist problem could be with us for many years, and that's certainly a human tragedy. However, no one can revoke the business cycle. There will always be companies that make great products and high profits. Those companies will expand, and the value of those companies will grow. If you own shares in those companies, your wealth will expand.

Even though the world can be a scary place, history reveals that catastrophes end up as just blips on the investing radar screen. Political and military disasters have never dealt a death blow to our financial markets. In fact, the longest

time they ever took for recovery from a military attack was nine months, back in 1941 after Pearl Harbor.

People lose money in tough times when they don't have a coherent, predetermined strategy for entry to and exit from the market. If you want to grow your assets safely, ignore military and political events. Establish a plan for buying and selling based on what the market tells you, not the nightly news. Then let that plan dictate your decisions rather than be swayed by your emotions, which will be understandably strong in times of stress. But if you want to weather any storm, you must stay the course.

In sum, listen to the market, not the media reports. Develop what I call a "safety-net strategy," where the impact of world events is diminished, yet those events never dictate your strategy. Such a strategy assesses real instead of perceived risks in the market. In future columns, I'll be sharing what those real risks are and how to create a safety-net strategy that will give you safe harbor in any economic climate.

Neal Frankle is the author of Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity. He helps affluent clients establish and implement a safety-net strategy to protect their wealth. He also helps other professionals, such as CPAs, to do the same thing for their clients. For more information you can contact him at Neal@WealthResourcesGroup.com or visit www.wealthresourcesgroup.com.