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FINANCIAL PLANNING ALERT

Navigating Through Volatile Markets

"There are two times in a man's life when he should not speculate: when he can't afford it and when he can."

This quote by Mark Twain is particularly amusing when markets become unstable and volatile. Volatility in the stock market can cause investors to have a variety of emotions ranging from slight discomfort to deep anxiety. For sensitive investors, 2007 has been a year for keeping the Rolaids handy. Consider that through August 17th of 2007 the Dow Jones Industrials Average experienced 40 separate days when the average moved up or down by at least 100 points. In all of 2006 the Dow had 33 days with such movement and in 2005 only 35 days. Many experts believe that the markets will continue to exhibit such volatility for the remainder of the year.

What causes volatility? The stock market is highly speculative. There are assumptions built into each company's share price such as future earnings, profit, and growth. In addition to company-specific events that impact these assumptions there are many macro-economic conditions that are factored in. Even a well-managed company is not immune to changes in the national economy. The pulse of the economy is measured by indicators such as inflation, interest rates, and gross domestic product. When a news release shows an unexpected change in the economy the market usually reacts strongly. The market's reaction to the recent mortgage default crisis is an example of how an event that signals changing economic conditions can trigger substantial volatility.

When the markets are unstable it can be difficult for an investor to know how to best manage their investments. It is easy for investors to focus on recent events and lose sight of the big picture. Three important lessons worth remembering are to tame your emotions, keep the right perspective, and maintain a diversified portfolio.

Tame your emotions. When investors realize that the market's roller coaster ride has suddenly become un-enjoyable, it is easy to let emotions take over. But letting emotions dictate important investment decisions can be dangerous. **Emotions can overshadow objectivity resulting in poor decisions with long-term ramifications.** Emotions may cause an investor to spontaneously overhaul his or her portfolio into an allocation that doesn't fit the long-term goals. In addition, portfolio transactions that are created because of emotionally-charged decisions can generate heavy surrender fees and sales charges. When emotions tell you to get off of the roller coaster, remember that sometimes if you get off at the wrong place you can miss the platform and fall to the ground.

Keep the right perspective. Market volatility can cause investors to lose sight of the big picture. If you are a long-term investor it is especially important to keep a big-picture outlook. **By taking a step back and looking at the big picture, the headlines and alarm bells begin to fade away.** This is not to say investors should stick their head in the sand and pretend nothing is happening. Rather, it is a realization that despite volatility and periodic bear markets, the U.S. stock market is resilient and has consistently yielded favorable returns over the long-term.

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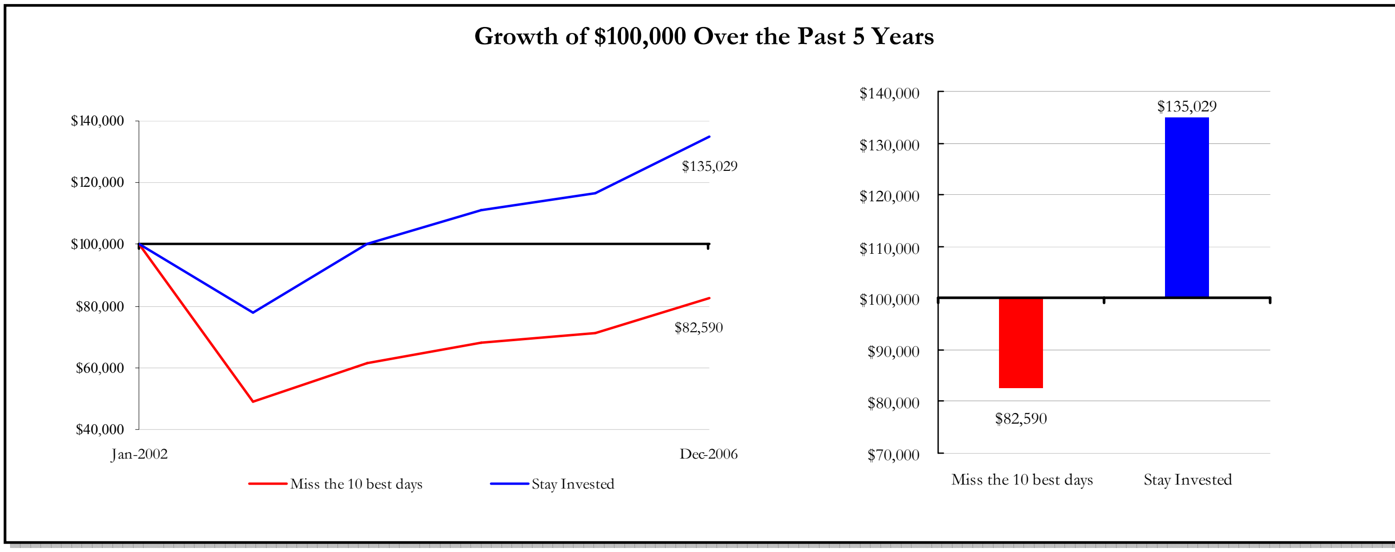
Investors that focus on short-term trends often make knee-jerk decisions such as pulling out of the stock market until things “get better”. However, these same investors are often on the sidelines when the market experiences an unexpected *surge* in value. Consider that $100,000 invested in the S&P 500 in 2002 would have been worth $135,029 at the end of 2006. However, if an investor missed out on the 10 best performing days during that same period, the $100,000 would only be worth $82,590 at the end of 2006. This illustrates the risks of making impulsive decisions without thinking of the long term effects.



Maintain Diversification. The market goes through unpredictable cycles often favoring a particular asset class one year and then a different asset class the next year. These cyclical changes in the market are always accompanied by volatility. The best strategy for dealing with market cycles is to maintain a diversified account. A diversified account is one that expands into several types of stock and bond categories. The diversification should be based primarily on the level of risk you are willing to accept. **Diversification provides helpful exposure to favorable areas of the market and prevents over-exposure to areas of the market that have fallen out of favor.**

Market volatility can be difficult to cope with. Volatility can stir up emotions and can cause an investor much anxiety. During these times it is important to refrain from making investment decisions based on emotions, always keep the right perspective, and maintain proper diversification. By remembering these fundamental lessons one can more easily navigate through the market’s choppy waters to the peaceful shores beyond.

Managing your own investments can be challenging, especially when the market is volatile. Mersereau & Lazenby, L.L.C. can help develop and maintain an investment strategy that is appropriate for you. As a fee-only provider we do not receive a commission on any product or service. This allows us to provide financial planning and investment management that is independent and objective. Please contact our office to learn more about these services.