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Alan Griffin: Panic Is Not an Option

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By Alan Griffin for Crowell, Weedon & Co.

Crowell, Weedon & Co. shares valuable market insights from one of its independent portfolio managers, Kelly Capital Management

The recent stock market nosedive has sent many people into a panic as they see their hard-earned savings suddenly and perhaps significantly reduced.

Alan Griffin

The following was written by one of Crowell, Weedon & Co.'s portfolio managers, Jim Kelly, president of Kelly Capital Management. His comments were the best I've read on the recent market volatility, while offering a welcome perspective.

During delicate economic times, keeping lines of communication open are critical, so Crowell Weedon is lucky to be able to collaborate with experts such as these and share insights.

Here's what Kelly shared with us:

Unlike 2008-09, when "things were different," we believe the issues and problems are clear in 2011-12. Specifically:

» Control spending. Federal and state governments need to spend only what they can fund — just like a household budget.

» Obtain the required revenues to keep necessary programs functioning (yes, this will mean some tax increases).

» Print the required amount of currency to pay the known bills — in other words, inflate our way to a nondeficit environment.

» Debase the currency so we have an advantage in international exporting. A weak dollar helps us sell to the world what we still make here.

» Be prepared for inflation's return. Prices will increase, as interest rates must also.

» Create a positive business environment to encourage worker confidence. This will translate into consumer spending.

» Foster demand growth, which will lead to job creation. No demand growth = no job creation — business owners know this.

History shows that running for cash has the following impacts:

» Lower total return than staying invested according to plan.

» Taxes on realized gains (where applicable) and transaction costs reduce principal available for reinvestment.

» Longer break-even time than remaining fully invested (possibly beyond one's expected lifetime).

Our economy is a bit anemic, but it's growing. We do not forecast a recession. The stock market has made some volatile moves this year, but the year-to-date percentage changes are only about a nickel on the dollar for the Dow Industrials and less than a dime on a dollar for the S&P 500. These are easy declines to make up, and we anticipate that we will see the markets at higher levels by year-end.

Unless you think the United States is going out of existence and the entire economy is going to literally stop, then now is the time to put money to work. On balance, if you wanted to buy something and liked it at "full price," then why not buy it when it's on sale for a 5 percent to 10 percent discount?

If you have free capital, send it into your account now. If you haven't made your IRA contribution for 2011, do so now. The market is on sale. The way to make money now is to act while the opportunity exists!

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