

Finally, All She Wrote!!!

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The US Treasury is saying it has had enough of risk taking brokerage firms who didn't care, except for their own wallets. And, they are not going to bail out these Wall Street "cats"; they can figure out how to get out of their problems without tax-payer assistance. It does appear the financial crisis, which has been in slow motion, may now have seen hurricane Ike.

This is not to say the Treasury or Fed wants the financial system to fail, or that they want housing woes to wipe out hard-working, taxpaying citizens. But talks with Lehman Brothers over the weekend provided no assistance, and the end result was Lehman filing for Chapter 11 bankruptcy protection. And, Merrill Lynch will now be part of Bank of America. All of this comes one week after the Treasury placed Freddie Mac and Fannie Mae into conservatorship. Thus, not all financial institutions are too big to fail.

This will have meaningful consequences and implications for the future of the financial services marketplace. Of key importance to clients is that Schwab has never been like the Merrill Lynch's, Goldman Sachs, Lehman Brothers or others that developed securities and created all types of securities transactions to fill the appetite of investors of all sorts. Schwab does not have financial ties to Lehman like some others; it is independent. Watching Schwab stock should provide witness to the fact that the markets do not see worrisome connections. You should not be wary of your accounts' safety at Schwab.

Next, it is most difficult for us to make predictions about what the markets will be like tomorrow, the next few days or weeks. We should expect further turmoil in the financial markets and emotional selling can take prices of some securities to obscene levels. When the markets stabilize, which they will, and cooler heads prevail, investors (not speculators) will advance stock prices. The financial dominoes are bigger and closer together now. In the short term, confidence is lacking (by investors and between financial institutions as they avoid making loans of all kinds), but confidence will return.

We are holding cash, since late last year (and wish percentages were even greater); in addition most client portfolios also own bonds. Thus, stock market exposure is lighter than when we are fully invested. We expect to stay conservative for a while longer. We don't like to time the markets, rather we like to be long-term investors. But like you, we have not witnessed this type of financial institution turmoil before. We need to keep in mind the Fed, Treasury and government has instituted enormous policy response. Policy response works with a lag. And we expect more policy responses are likely.

If you harbor undue worries, please let us hear from you via phone call or email. We want to know how you are doing.

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