

Lessons Learned from the Economic Meltdown of 2008

At the time of this writing, global stocks are experiencing an unexpected recovery. Could this mean we are out of the doldrums and back on the path to growth? Bears and bulls continue to argue this point, which can only be decided in retrospect.

Whether we are past the worst, or taking a breather from the next round of bad news, one thing is critical: did we learn anything from our mistakes? Errors in judgement, and in regulation, are hopefully being addressed and corrected by corporate boards and legislators. But, what about our mistakes? The typical investor clearly made mistakes that cost him/her losses in their portfolio. Granted, some were unavoidable because of the lack of information available (packaged mortgage securities, for example). But, many investors made critical mistakes. Here are a few points I believe we should learn from our losses.

Invest according to your risk tolerance. Just because, say, emerging markets stocks are on a tear doesn't mean they're good for you. Everyone has their "panic point". How big of a loss can you tolerate before you panic? Consider that point, then relay that information to your financial advisor so they can keep your investments conservative enough to not exceed that point under normal economic conditions. Remember that, as a rule of thumb, higher returns result in higher risks.

It's dangerous to follow the trends. Where did it become acceptable, even wise, to believe that flipping houses or luxury condos is a safe and predictable investment? According to jparsons.net, the inflation adjusted prices for U.S. houses between 1979-1999 averaged about \$142,000. That means there was no gain in housing value after inflation. From 1999 until the bubble burst in 2006-2007, houses increased about 65%, which should have been a clear sign that housing was overpriced. Now, prices are back to the pre-bubble values. If you think of your house as an investment, remember that values growing faster than inflation has only been a product of recent years and may never happen again.

We don't need as much as we think we do. When it became clear that belt-tightening was in order, did you suffer? Were you lacking anything important? Me either. If you are old enough, think back to how you lived in the 1950s-60s. Did your house have central air? How many televisions did you have? How many channels did it get? Did you need to talk on the phone anywhere you were? How big was your house? Did Grandma live there too?

I believe that Americans are, frankly, a spoiled society that looks for gratification in the stuff they buy. Madison Avenue tells us the latest car, hair color, .mp3 player, or whatever, will make us happy. As Christians, we know that true happiness is found only in our Savior. Let's act accordingly and forget about the stuff that moths and rust will destroy, and seek true riches.

God allows bad things to happen to us so that we may learn how to follow Him more closely. I hope and pray that the past 20 months of economic turmoil have accomplished that in your life.

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