

Making the Most of Your Money

By [Susan Carr-Templeton](#) / 08/05/11

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Stocks Plunge: Investment Portfolio Advice

Stocks plunged 4.31 percent on Thursday, the worst day of market declines in nearly three years. Is it time to panic?

In short, the answer is no. In my opinion the market participants have overestimated the downside and we are nowhere in need of any kind of panic. At some point soon, there is clearly a buying opportunity.

Let us look at the positives and negatives in the marketplace. On the positive side, in 2008 and 2009, the federal government forced U.S. banks to recapitalize and they are now on solid footing, so the threat of a banking crisis is negligible. Retail sales have been reporting positive results and new auto sales are up. We had a better-than-expected employment number today as hiring picked up slightly in July and the unemployment rate went from 9.2 percent to 9.1 percent. U.S.-based, large global companies continue to expand in the areas of capital expenditures, hold strong balance sheets and enjoy high cash reserves. This is all good.

There are clearly issues ahead of us, such as the European crisis. Europe is having banking problems (they never forced their banks to recapitalize). We also face a definite slowdown in projected economic growth (GDP), which is exasperated by lower overall consumer sentiment. Although the jobs report today was better, but not great, job creation remains a problem. We do know from past history that the unemployment rate does not typically improve until the end of a recession.

So how should you navigate the market at this time?

As Jeremy Siegel, an economist at the Wharton School of Finance said on Friday, "Valuations (of stocks) are low right now relative to their value and earnings outlook. In the long run, valuations drive performance." What professor Siegel is alluding to is that companies' shares are selling at an all-time low, where their price to earnings ratio is on average, less than 14 times earnings. The last time that stock prices were this low relative to earnings was in 1990, when investors had a better investment alternative: government bonds yielding 8 percent.

If you have money invested in the market, I suggest you should stay the course and not liquidate. At this point, I believe the markets have priced in lower economic growth and corporate earnings than will actually transpire. I believe that the market has overreacted to the recent economic news and data.

Where is the best place to invest? I like good global companies with strong balance sheets, strong brand names that pay dividends. A favorite is the Vanguard High Dividend Yield ETF (VYM), which specializes in shares of these firms. As always, be sure your portfolio is diversified.



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Susan Carr-Templeton is a personal wealth advisor with more than 20 years of investing experience. In addition to managing Stafford Wells Advisors, Ms. Carr-Templeton volunteers on the investment committee for the Advocate Foundation. She offers personal finance on investing, saving, retirement and more in "Making the Most of Your Money."

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