What a difference a month makes

"Market volatility on steroids" is how we'll remember August. On July 19th, the Dow and the S&P 500 were at record closings – up 12.3%, 9.5% year to date respectively with the NASDAQ up 12.6%. These numbers would have been great for year end. But, as we all know, the gains evaporated in four short weeks and August felt more like a roller coaster than a walk on the beach. Investors and homeowners alike are feeling the brunt of the credit crunch.

I could hear the tension in their voices as a young couple told me how they had stretched to buy a home nearly two years ago. They had little money for the down payment and chose a loan that would keep payments low for the first two years, then "reset" to a higher level. No problem, they thought, because with the hot real estate market, their equity would surely be high enough in two years to refinance at a better rate, right? Wrong. The loan resets in December and refinancing is all but impossible. Their appraisal came in lower than the purchase price and the loan balance will exceed what they could hope to get selling the home now.

The credit crunch resulting from the subprime lending fiasco is hitting hard. Cheap money, which fueled the real estate boom, has virtually dried up. The Feds are well aware that the economy could be seriously harmed if credit is not available and are expected to cut Fed funds rates before the year's end.

Putting the current situation in perspective takes looking beyond the headline news.

Believe it or not, there are some positive factors to consider:

- The Global economy is growing about 5% each year
- The US economy is expected to grow at 2% or more over inflation
- Interest rates at 5.25% for Federal Funds is historically low
- Job growth is strong with unemployment at about 4.6%
- The excesses in the real estate market are being "taken out" just as excesses in the stock market were during 2000-2003. The result, we anticipate, will be a healthier environment for real estate and the markets.

Balancing these positive factors against the negatives – credit crunch and market volatility – is the real challenge now. As you digest fast-changing mortgage and market news, revisit your financial strategies and investment goals. Working with a qualified advisor like a Certified Financial Planner may be just the sounding board you need if you're making financial decisions at this time. A good advisor:

- Gets you to think about your financial life in a way you might not have before
- Helps you set realistic goals and detail them in writing
- Discusses significant and/or new financial concepts so you are kept current
- Does due diligence on money managers and mutual fund managers in order to make appropriate recommendations.
- Helps you stay focused during difficult periods in the stock market and not be swayed by emotions
- Provides historical perspective and other data to educate you

This third quarter of 2007 hasn't been easy but ask yourself, what is different now? Corporations are still turning out great products and services and experiencing good earnings growth. Americans continue to work and live in a low inflation, low interest rate and growing economy. It may sound trite, but this, too, shall pass.

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