

Welcome to our new format and our new feature:

“There’s no such thing as a stupid question”

Straight answers to common financial questions

Why is it called a 401(k)?

While many people think the name 401(k) has some underlying financial meaning, it simply refers to the section of the US tax code that governs most employer-sponsored retirement plans. Section 401, subsection (k).

I’m confused, scared, and really think the economy is in bad shape.

There is absolutely no doubt we are in the midst of a recession and have been for quite a while. As a matter of fact the S&P operating earnings plunged by 30.8% over the four quarters of 2007. The question now is how long will it last, how deep will it be, and when will the recovery start?

Each one of those questions has so many variables attached that it would require a whole bunch of double talk. Rather than that I’ll try to summarize some of the more important issues that should help take some of the fear out of the market’s current condition.

The Fed (aka the 800 lb. gorilla) is pulling out all the stops to make sure that the recession is a mild and short one. They will aggressively continue this strategy for as long as it takes. The question here is whether their rate reductions will achieve the desired results. In my opinion they will and the recession has a very good chance of being mild. As far as how short it might be, it will most likely take more than a year to unwind the sub prime/financial issues and general decrease in household wealth.

Just as Nike has the phrase “Just Do It” the phrase for our present economy should be “It Is What It Is.” That simply means it has to run its course and there is nothing that wishing, hoping, or getting mad will do.

Should I get out of the market and wait it out?

I want this part of StraightTalk to be read a few times so please take the time to apply it to your personal situation. The US market has been tested in so many ways and in so many devastating situations that it should be apparent that we are not witnessing anything new. The US has an incredible penchant for fighting through difficult situations and coming out on the other end way better than before.

This time we are part of an ever expanding global economy that has to be reckoned with in terms of our overall economic strategy. The population powerhouses of Russia, China, and India will be major contributors to our development. They will be unbelievable consumers and producers and with the understanding that the US markets can grow and profit with the merging of these economies, I view the future as extremely bright. It will be different than we’ve known up to this point, but again, better.

Back to your portfolio: The US market will be volatile through the next several quarters as the bad economic news continues to enter the media but as you know everything cycles. As Americans alter their spending and savings habits, as the financial markets right themselves, and as corporate earnings start to rise as a result of cost savings efforts the markets will not only recover but emerge stronger than they were before.

Should you get out of the market? No. Should you be more conservative? Only if there is some change to your retirement time horizon. Enjoy the spring and stay safe.