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Abandon all hope? Investors grow weary of DC fixes



The shock that accompanied the market meltdown last fall has been replaced by something else: a resignation that it may take months or even years for the stock market to recover.

The worst week for stocks since early October underscored a loss of hope that government actions to stabilize the economy and the markets will pay off any time soon. Closing at 7,366 Friday, the [Dow Jones industrial average](#) is now down 48 percent from its peak just 16 months ago.

Investors are showing their strong disappointment with federal rescue efforts after putting their faith in it for months, according to Art Hogan, chief market analyst at Jefferies & Co. in Boston.

"The fiscal stimulus is now being looked at through the clear eyes that it's a longer-term, back end-loaded plan that will take years, not months, to start affecting the real economy," he said.

Financial advisers and planners are trying to stay in closer touch with nervous clients and revisiting whether their advice from last fall still holds true.

"Everybody wants to know where things are at and where is this going to bottom out," said Doug De Groote, managing director of United Wealth Management in Westlake Village, Calif. "They're seeing that the (political) change has not brought any good news to their portfolio."

Those who are the most vulnerable, including older investors and those with the most riding on the market, are among the uneasiest.

Joseph Leonard, a financial planner and retirement specialist in Southport, N.C., says attendance at the financial planning meetings he organizes has tripled to 150 since the meltdown, with many clients keeping their money in cash.

"They're scared," he said. "One guy told me, due to economic conditions the light at the end of the tunnel has been shut off. They don't see where that light is today."

Overall, however, the confusion and alarm that accompanied last fall's selloff have ebbed, as reflected in the recent relative stability of the VIX, the Chicago Board Options Exchange's volatility index. The VIX reflects investor sentiment about market volatility over the next 30 days and is often called Wall Street's fear gauge. But those emotions have been replaced by weary uncertainty and still-substantial concern, based on input from numerous financial advisers.

David Twibell, president of wealth management for Colorado Capital Bank in Denver, senses from talking with people about the markets that most are worn out by the constant flow of negative news and poor stock performance.

"During the current selloff, the feeling is more akin to resignation," he said.

So with the Dow Jones industrial average

closer to 5,000 than 10,000 after falling 6 percent this week, what should people do?

The answer, as always, varies depending on people's individual circumstances and tolerance for risk. Many investors, in any case, already have pulled back into more defensive positions, such as bonds and money-market funds, at their advisers' urgings.

The goal is to try to find a balance between being overexposed to the stock market and underexposed to the point where you miss out on any rally and lock in your losses.

Avoiding rash decisions and overreaction also is considered key. Marc Freedman, a certified financial planner in Peabody, Mass., fired off an e-mail Friday aimed at reassuring clients who might be inclined to react emotionally.

"Try your very best to think rationally, and in our opinion remain optimistic," he wrote.

Staying optimistic can be hard, depending on whose market assessments you trust.

Well-known financial pessimist Peter Schiff, who was ahead of the pack with predictions the economy and stock market would tank, said Friday he sees the Dow going potentially as low as 4,000 or 5,000.

"If people are looking for a bottom, U.S. stocks are still very expensive," said Schiff, who heads Euro Pacific Capital, a brokerage in Darien, Conn. "This bear market is going to last a long time."

Also bearish is Louise Yamada, head of Louise Yamada Technical Research Advisors in New York. She cites convincing trading patterns for why her target for the Dow is 6,000 if its 2002 low is breeched, as nearly happened Friday.

But before you head for the ledge, consider the glass-half-full outlook as well.

Hogan of Jeffries says all the money being pumped into the short-term havens of gold, money markets and Treasuries is a sure sign of pent-up demand for stocks once the outlook turns more promising,

which many experts think could happen by the fourth quarter. He thinks stocks could shrug off their double-digit declines to start the year (16 percent for the Dow and 15 percent for the Standard & Poor's 500 index so far) and still finish up for 2009.

"I don't think it's irrational to think that that can happen by year end," he said, "which makes the front end of this year look like an interesting albeit risky buying opportunity."

AP Personal Finance Writer David Pitt in Des Moines, Iowa, contributed to this report.