

# Everything Changes, Nothing Changes

By William Hammer, Jr.



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*"It's the same old story, same old song and dance, my friend."*

*-Aerosmith*

**J**ohn Pierpont Morgan, before his name was better known as a financial institution, was famous for his response to someone asking him about what the stock market will do. He replied, "It will fluctuate."

Well, boy was he ever right.

As I write this article on August 10th, the S&P 500 is down about 10% since January 1st. The aftershock of S&P's downgrade of our nation's debt, in combination with the sovereign debt concerns abroad, has brought on massive selling in the global equity markets. Once again, investors are concerned that the world will end.

While it feels as though we are watching a brand new movie, it is really the same movie all over again. We have seen this before.

*Boy meets girl, boy loses girl, boy gets girl back.*

*Hero meets villain, villain fights hero, hero beats villain.*

While the characters of this current crisis are new (sovereign debt) and the special effects are better (S&P's Friday night downgrade), this is not a new story.

This is not the first time our nation faced major headwinds that seemed insurmountable. This is not the first time major selling begat more selling in the short run. This is not the first time that investors have panicked out of the market because they were waiting for more certainty in the economy.

We all enjoy debating what the country will or should do to fix its fiscal problems and I'm sure we all have our own well-founded argument for where the market will go between now and the end of the year.

But regardless of how many billions we manage, we all share one thing in common - **we have no idea what will happen next in the market or the economy.**

We would love to tell clients when to get in and out of the market, but we can't. We wish we could correctly forecast the 2012 earnings on the S&P 500, but we can't.

It would be great to tell clients what inflation will be in five years, but we can't.

But there are some concepts that we can help clients to remember.

You cannot react your way to long-term financial independence, you can only act your way to it. In the short run, the market is a voting machine, but in the long run, it is a weighing machine. Maintaining an adequate level of liquidity allows you to withstand market volatility.

There are also some specific actions that we can take

- \* We can review concerned clients' financial plans, determine their long-term success rates and make portfolio or cash flow adjustments to increase their odds of success.

- \* We can rebalance portfolios that have strayed from their long-term targets so that they maintain an appropriate level of risk that allows clients to sleep at night.

- \* We can review the budgets of income-oriented clients to see if there are ways to take some of the temporary pressure off of their portfolio assets.

As advisors, we perform important tangible functions for clients like portfolio management, financial planning, or tax preparation. However, no matter how important those functions are, our greatest value might be in helping clients to **gain and maintain perspective during challenging times.**

Whether that challenge comes from outside forces (economy, markets, etc.) or inside forces (family, job, etc.), we must help clients avoid the big mistakes that emotional decisions cause. Emotions are the enemy of long-term financial independence because they are the cause of most investors' largest and most expensive financial mistakes.

Above all, we must make sure that we do not try to get too caught up in this latest movie. We don't know how much longer it is, but we can be pretty certain, based on our past movie-watching experience, that it, too, will end **FA**

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