

# Modern Day Rip Van Winkle



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Most individuals are aware of the story of Rip Van Winkle, the young Dutch American in the story published in June of 1819 by author Washington Irving. As a refresher, it is a story of a young farm owner who was not the most ambitious individual. However, he was quick to lend a hand to any neighbor who may have needed help or whatever would get him away from tending his daily chores on the farm. Well, one day as he was procrastinating (my interpretation) he followed a guy into the mountain that was carrying a keg; he began drinking a few and falls asleep...for twenty years. Upon waking, with hair and beard long and grey, he returns to the village to find nobody he recognizes and unaware of the changes that have taken place over time. You may be thinking, nice story but how does this relate to investments and financial planning? Well, what would you have missed if you fell asleep on March 11<sup>th</sup>, 2008 and woke up January 7<sup>th</sup>, 2011? Not twenty years later, but a little over two years.

To review this time period, let's look back and use my favorite source for crisis material...the financial media. The reason for your sleep on the above date is because the Federal Reserve had just outlined a two hundred billion dollar loan package to bail out the banks and upon hearing this news-you figured it would be a good day to have a drink. While you are dreaming, the following has happened:

*March 16<sup>th</sup>, 2008*- The Federal Reserve approves a thirty Billion dollar loan for JP Morgan to take over Bear Stearns.

*December 19<sup>th</sup>, 2008*- President Bush outlines loans for GM and Chrysler for 17.4 Billion to survive the next four (4) months.

*February 17<sup>th</sup>, 2009*- Stimulus Bill for 787 Billion Dollars

*March 6<sup>th</sup>, 2009*- Unemployment hits 8.1 percent

*March 12<sup>th</sup>, 2009*- Madoff Ponzi Scheme hits the news

*April 30<sup>th</sup>, 2009*- Chrysler files for bankruptcy

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*June, 2009-* General Motors files for bankruptcy

SNOORE, SNOORE, SNOORE (Yes, you are still sleeping)

*April 2010-* Greece Debt Crisis

May 6<sup>th</sup>, 2010- Flash Crash, Dow drops around 600 points in about fifteen minutes

*June 8<sup>th</sup>, 2010-* Unemployment hits 10 percent

And many more “crisis” to report from the financial media in between but I’d rather not refresh your stress levels.

What amazes me most about the events from above is that each one was supposed to be the next “end of the world as we know it.” Capitalism, banking systems, and businesses that have propelled this country to the level of dominance in the world markets were no longer going to work- many have said it was all smoke and mirrors. But I believe they were wrong. Capitalism has been re-energized, banking systems are restructuring and businesses have adopted by having some of the strongest balance sheets they have seen in over fifty years. And the government...well, we won’t go there.

On the week of March 11<sup>th</sup>, 2008 the S & P 500 Index closed at around 1,256.98 and the week of January 7<sup>th</sup>, 2011 the S & P 500 Index closed at around 1,276.56 (and this does not include dividends). Many investors jumped out of the markets and into cash to wait out the on slot of bad news, but said they would get back in as soon as they *felt* comfortable that the current crisis was over. And many are still waiting. Or you could take a lesson from Rip Van Winkle; by doing nothing (only because he was sleeping and couldn’t allow his emotions to get the best of him) he may have potentially awoken to find his investment portfolio at a level similar to when he fell asleep. The lesson learned is that when you have long term investments based on a written financial plan, short term events should sometimes be approached from a quote by Winnie-the -Pooh, “Never underestimate the value of doing nothing.”

Past performance is no guarantee of future results.

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