# There's More Risk in the Stock Market than You Realize… and It's Increasing!

*This article sheds new light on the amount of risk even risk-tolerant investors are taking.*

The amount of risk the stock market poses is not static. When you select a portfolio that represents a certain amount of risk which should be in line with your risk tolerance, you must be very careful. Why? Because the external forces that move the market are constantly changing, resulting in less or more pressure on the market to move either up or down.

Currently, the pressure that is mounting like a volcanic eruption waiting to happen is putting great downward pressure on the U.S. stock market.

One may say, "Well, I'm quite risk tolerant; and if the market goes down like it did in 2007, I can ride it out and I'll be okay." This position would have to assume that the market would recover to the previous levels of today in a reasonable timeframe of, let's say, a few years.

Now let me show you why I believe people in the market today are taking on a lot more risk than they realize.

First, remember that back in October 2007 prior to the most recent market meltdown, the Dow was at 14,000 points. If today, the summer of 2010, represents the near pinnacle of the current recovery, then you still would have nowhere near the amount of investable assets your accounts represented in 2007 -- for several reasons, the most obvious being that the Dow is not at 14,000 points but at 10,000.

Second, when the market drops by 50% on your $100,000, taking it to $50,000, you need not a 50% gain, but a 100% gain just to break even. For both of these reasons you are not at your 2007 levels now; but let's consider another phenomenon that you may not have thought of.

When bubbles burst like the real estate market and stock markets did in 2007, they don't re-inflate to their previous levels for a long period of time, typically 20 years or longer. Consider Japan, whose own stock index, the Nikkei, sat at 38,000 points in 1990 and today, 20 years later, is still at 10,000 points. Do you think risk-tolerant Japanese investors who said, "I can stand large corrections should they occur; and I can even wait a long time to recover" had in mind that 20 years later they may still be worth only one-third of their 1990 account values?

Bill Gross, CEO of PIMCO, one of the world's largest bond fund managers, has said history was made in October 2007 when the stock market fell because we may never again in our lifetimes see a Dow of 14,000 points. Why? Bubbles burst for a reason and don't re-inflate for a very long time. The stock market bubble burst in 1929, ushering in the Great Depression; and investors were not made whole as a result of the market's losses until 1954, 25 years later. I'm sure that when risk tolerance was explained to investors in 1928 they had no idea of the level of risk they were exposing their life savings to at the time, which was also true in Japan in 1989.

Mr. Gross has gone on to say that we are now living in the beginnings of a "new normal" - an extended period where prices are falling in a process of deleveraging and will not recover to previous levels. Instead, they will find a new normal that is supportable by a slower aging economy.

Remember that the Dow was at 14,000 points just 3½ years ago. Today it's at 10,000. As we continue to adjust to the new normal, there are additional bubbles that have not yet burst that upon doing so will cause the market to drop further - not just drop lower but also stay lower for many years to come. I believe if you are in your 50's or older you cannot afford to ride the market down this time because it's not coming back for many years.

The bubbles that have yet to burst are the following: Bond bubble, dollar bubble, U.S. Government debt bubble and, eventually, a gold bubble.

When these bubbles burst, the Dow will fall to a new normal. That new sustainable level may be between 5,000 and 7,000. Famed economist Harry Dent believes the Dow could fall to 3,500. When the market has greater downward pressure than up and our country's financial woes and demographics will keep it down, then the most critical strategy quickly becomes to protect what you already have while our nation and economy deleverages (defaults or pays down debt) and adjusts to the new normal.

We've been taught that over periods of ten years or more the market always goes up. Well, if that were ever true, it no longer is. Consider the Dow which stood at 7,487 on November 13, 1997 and then was again at 7,486 on March 18, 2009, almost 12 years later.

One of the reasons the stock market bubble will not re-inflate to 14,000 is to consider what pushed it there to begin with. The 77-million-strong baby boomers were in their prime spending years in the 1990s, on a spending spree the likes our country had never before experienced. All that demand created a supply shortage in housing and allowed companies of all types to raise prices, thus, driving our markets higher. Seventy percent of our GDP is made up of consumer spending. Now, here we are in 2010; and the baby boomers are 20 years older than in 1990. They are past their peak spending years. They are downsizing empty nesters that are fearful about the future and saving like never before.

When you recognize we are now in the new normal - which is still adjusting to new lower pricing - then you will realize the next time the market declines it's not only not coming back to its current levels quickly, it may not come back in our lifetime. That adds up to risk that many do not realize they are taking.

I have averaged returns in the 6-8% range without risk to my clients' nest eggs. That's why I have happy clients!

You may think you can do better by taking on the risk of the market. Remember two things: The 6-8% average is always on <u>all</u> your money. You never have to waste years making up for losses that can't happen to begin with. Second, the Dow stood at 66 points in 1900 and at 11,497 by the year 2,000 – 100 years of performance that resulted in a 5.3% annual compounded return - not 10% or greater as some would think.

We participate in the market, too, but it's done in such a way so as to never place your life's work at risk. None of us can be young again and go back and earn it all over should it be lost.

A bird in the hand is worth two in the bush.  In my book, doubling your money in 8 years - as I have done many times - is not giving up and throwing in the towel!  In fact, it is often an improvement over the volatile experiences the market has delivered to so many.

If I haven't already, I can show you a way to stay in complete control of your money till your last breath; and instead of giving your money to the government, nursing home or stock market, you can keep it in your family for generations to come.

I offer very safe strategies for the volatile world we are living in. I look forward to visiting with you over the phone in a few days to see if I can be of help.

Sleep well,