KiplingerBusinessResourceCenter
FORECASTS AND ADVICE FOR LOOKING AHEAD AND STAYING AHEAD

Keeping Calm January 22, 2008

Knight Kiplinger urges you to take the long view.
By Knight Kiplinger, Editor in Chief, Kiplinger publications

You wouldn't be human if you weren't at least a little unnerved by the big drops in global stock markets the past few days.

But you will be best served by staying calm while other investors -- no, call them traders -- are losing their heads.

I have no idea how much lower U.S. and global markets will fall, but I tend to feel that the fundamental strengths of the U.S. and world economies are being shortchanged by the panicky mood.

Now isn't the time for long-term investors to dump their stocks of high-quality multinational companies, but it is the time to consider adding to your positions at now-lower prices. (For some examples, check out recent articles and columns on this Web site or in our magazine.)

The foundations of great fortunes -- whether in stocks or real estate -- are laid in bear markets, when real investors have the courage and patience to buy low and hang on.

I know it's difficult to go against the crowd, to avoid getting caught up in the mood of the moment, whether mindless euphoria or baseless gloom. But the most savvy investors do just that. They act like contrarians.

They sold their grossly inflated tech stocks in late 1999 and early 2000 (on the way to Dow 11,000 and Nasdaq 5000), so they avoided the worst carnage in the 2000-2002 bear market. They used some of the proceeds to buy bonds, which produced great returns as interest rates fell over the following several years.

Encouraged by calm investment advice from us at Kiplinger and other financial experts, these contrarians used their cash for buying depressed stocks during the bear market.

In the July 2002 issue of Kiplinger's Personal Finance, while the Dow was continuing to fall toward a bear-market low of 7286 in October, I published a column, "A Strategy for All Times," that laid out the investment concepts we've preached for 60 years. It made the case for continuing to own -- and adding to -- quality stocks when many investors were shunning all equities.

If I have some credibility during bear markets, perhaps it's because I'm not hesitant to sound a warning about overheated bull markets. On March 10, 2000, with stock indexes at all-time highs, I wrote in our weekly Kiplinger Letter that the dot.com boom was a "dangerous speculative bubble, as foolish as any in history."

I issued another warning last year, when I compared the capital markets to "the Wild West" and suggested that stock investors capture some of their gains and build up cash. I couldn't understand why -- given the economic problems that were beginning to unfold -- the Dow had hit 14,000 in July 2007 and then returned to that level a few months later, with a brief swoon in between.

In a November 2007 column, "Market Timing the Right Way," I explained why I had lightened up on U.S. stocks in some of my family's investment accounts -- those that have nearer-term objectives -- while leaving other accounts as is.

OK, so now the major correction that I and others foresaw is upon us, and stock indexes have fallen into bear territory for the first time in five years. What now?

Well, the pendulum of investor sentiment has swung far from the greed pole and is now lurching toward the opposite pole -- fear. Both emotional extremes are detrimental to investing success.

To me, deepening fear is a "buy" sign for the investor with the long view -- not a signal to plunge in all at once, but to begin looking for bargains. Sure, the quality stocks you buy now may fall further, so you must have the courage to add to your positions on the way down. This will produce a lower average cost per share, and it will amplify your gains when markets recover.

And recover they will, in so dynamic a global economy, so rich in opportunities, both in the U.S. and abroad. Whether it's later this year or next, I don't know. In the meantime, keep a cool head.