

## **The Current Market: A fresh look at when to invest**

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Consider this scenario. You go to the ocean. It is breezy and chilly. You want to swim, but not if you are going to feel miserably cold in the water. Do you dip your toe in the water or plunge in to rid yourself of any second thoughts? The former action is tentative partial commitment. The latter is full commitment. The consequence of each action is vastly different. Those who don't commit to plunge in the ocean have options left—to remain dry, wade in gingerly, or get completely wet later. Those already in the ocean don't have any more options. They are already wet and have to take what the water offers, whether it is pleasant or not.

The same situation is true for the current market. If you have cash plus a sufficient stable cushion, you have these same choices. Take the plunge now (thinking the market might not descend lower) or dip your toe in (thinking it might descend lower). No one knows which is more likely, but these are some considerations.

On Monday, October 27, 2008, The S&P plunged to 843 at close. This low 800 level has not been seen since 2002. Though this sounds like a buying opportunity similar to 2002, there is more to consider. The S&P trailing four quarter P/E on October 10 was 17.2 (NYT, page 27, 10 12 2008) when the S&P closed at 899, just over the 843 level Monday. Compare this to the low 1973-74 S&P trailing 12 month P/E of 7-8 (when the S&P fell from 120 to 60).

In addition, today our economy has a systematic problem, more like the 1974 crises than the 2002 irrational exuberance. In the 1970's, our problem was oil; now it is banks (to put it in the most basic terms). Neither 1973-74 nor now is a bubble due to investor enthusiasm. The problem is deeper than that.

Earlier P/E's  
During Downturns

	1973-1976		1987-1990		2001-2004
12/31/1976	10.84	12/31/1990	15.47	06/30/2004	20.32
09/30/1976	11.02	09/30/1990	14.08	03/31/2004	21.66
06/30/1976	11.27	06/30/1990	16.84	12/31/2003	22.81
03/31/1976	11.87	03/31/1990	15.69	09/30/2003	25.82
12/31/1975	11.33	12/31/1989	15.45	06/30/2003	28.21
09/30/1975	10.81	09/30/1989	14.74	03/31/2003	27.97
06/30/1975	11.96	06/30/1989	12.61	12/31/2002	31.89
03/31/1975	9.87	03/31/1989	11.81	09/30/2002	27.14
<b>12/31/1974</b>	<b>7.71</b>	12/31/1988	11.69	06/30/2002	37.02
<b>09/30/1974</b>	<b>6.97</b>	09/30/1988	11.96	03/31/2002	46.45
06/30/1974	9.84	06/30/1988	12.62	12/31/2001	46.50
03/31/1974	11.24	03/31/1988	13.93		
12/31/1973	11.95	12/31/1987	14.12		
09/30/1973	14.10	09/30/1987	20.29		
06/30/1973	14.42	06/30/1987	21.08		
03/31/1973	16.40	03/31/1987	19.32		

STANDARD & POOR'S INDEX SERVICES  
S&P 500 Historical As Reported P/E Ratio  
P/Es are based on trailing 12-month earnings  
There is a quarter lag in posting due to reporting

So, what to do? I've considered this long and hard. If the choice is dependent on anything, it seems to me to be on cash available beyond your 7-year downdraft nest egg discussed several times previously (for those retired or about to retire or who may lose their job). For these lucky individuals that have expendable monies now, entering the market could well be very profitable.

There are three possibilities.

Your job is bullet proof. You know you can't lose it (for example, a doctor). If you have a six month emergency fund, put your monthly earned expendable dollars in the market—you will automatically be dollar cost averaging. If you don't have an emergency fund for living expenses, put this money away first before investing in the market.

You are working, but your job is not bullet proof. Then, make sure you have that emergency fund plus fixed assets that could take you out several years if you need them in case you do lose your job. It is only after that you should consider putting your expendable dollars in the market.

You are retired or about to retire. If you have more (ten or more years) than the

seven year cushion that has been discussed several times previously plus extra cash, consider dipping your toe or ankle or even your knee into the water. If the temperature is too uncomfortable, you can withdraw and reassess another season.

I am using that approach. On October 10, 2008 I bought XLU, the utilities select sector SPDR for a pension fund I manage. It has a yield of over three per cent which makes it attractive. Also, when I bought it the P/E was a modest 11. However, it went to 14 later in the day as the market rallied (this was good for me if it doesn't go down again).

Nevertheless, at this point, though I have cash, I'm going to keep it. My decision is simply weighting the odds. If the P/E was a 12 month trailing 7-8 in 1974, it could happen again because that scenario is more like our present one than the 1987 or 2002 crises. In addition, I am not willing to risk an uncomfortable immediate future either psychologically or physically (lack of ready funds). So, I just put a toe in the water, but may wait a bit before testing it again.