Frequently Asked Questions

With so many brokerage firms in trouble, is my account safe?

Fortunately, Charles Schwab & Co has not had the involvement in structuring or trading in the securities that have troubled many of the major banks, investment banks and brokerage firms. Schwab does have a mortgage lending arm, but it its not a significant part of their business. While they do manage their own mutual funds, many of which will have exposure to distressed segments of the financial markets, they have remained far removed from the business lines that have deeply impacted the likes of Lehman Brothers, Bear Stearns, Merrill Lynch, Morgan Stanley, Citigroup, and Wachovia among others.

Do I own any stock in the aforementioned troubled banks and brokerage firms?

Any ownership in these companies would be on a minimal scale as some of the mutual funds you own have exposure to the companies. Fortunately, given that the mutual funds remain broadly diversified, significant exposure to any one stock is impossible.

Isn't it different this time?

Yes and no. Though we freely acknowledge that the circumstances that caused this particular decline are different, declines of this magnitude are not. Since the Great Depression there have been three others of similar magnitude. From peak to trough, the S&P 500 Index lost 60% in 1937-1942; 48% in the energy crisis of 1973-1974; and 49% after the dot-com implosion earlier this decade. The current down-turn represents about a 52% loss from nearly a year and a half ago.

Are we in a recession yet?

While not officially declared, it certainly appears that we are well into one. Last quarter was one of modestly negative growth while the current quarter appears to be slower yet. With consumer confidence at record lows and unemployment rising, the question is more one of the recession's severity and duration than whether we are in one or not. Many prognosticators suggest that this one will run through the first two quarters of this year if not longer. For perspective, the National Bureau of Economic Research reports the average post-war recession lasts about 11 months.

Where does Arcadia think we are in terms of a stock market bottom?

We knew you would ask that one. As you know, however, we don't spend a great deal of time attempting to forecast market tops and bottoms. Ultimately, the duration and depth of the recession will have something to say about where the market goes from here. Fortunately, as a forward-looking indicator, the stock market typically (but not always) begins its recovery well before there is any clear indication that a recession has run its course.

Shouldn't we have anticipated this decline?

As much as we would like to tell you that we can correctly and accurately predict short-term market movements with any degree of consistency we, or anyone else for that matter, simply cannot. Without seeming too harsh, many of the Wall Street firms that have advocated a market timing or forecasting approach, or speculated on various sectors of the economy, are now devastated. As are many of their clients that relied on their advice.

Wouldn't I have been better off in cash?

While trying not to be too repetitive the short answer would be no, primarily due to the previous answer.

Keep in mind, our strategy is to keep several years of living expenses in cash or short term bonds which purpose is capital preservation and this allows our equity allocation years to recover. That approach has proved successful in previous declines such as this. Remember, we are investing with a time horizon of not a year or two, but for a lifetime, in which we need to generate a lifetime supply of cash flow in a rising cost environment.

Do you think this is a good time to be buying stocks?

Yes, but with prudence, primarily if your time horizon for accessing the capital is several years or longer. Anytime stocks fall over 50%, investors should be looking to re-balance toward, not away from, whatever has been beaten down. Historically, the best time to buy is when seemingly everyone is despondent and the consensus suggests there is no end in sight to the economic wreckage. During recent downside volatility, Americans redeemed $9 billion from equity mutual funds in one day. This is a number without precedent, but wait: it climaxed a week later in which net redemptions were $25 billion, and a fortnight in which they were $56 billion! Unfortunately for many, emotion, rather than prudence, dominates human behavior.

What has Arcadia been doing to help my portfolio during this difficult time?

As you may have noticed there have been more transactions than normal in your accounts in the last year or so. Though this is primarily determined on a client to client basis, there are some general reasons for this. We have been harvesting tax losses in accounts where appropriate. While a bit counterintuitive, it is beneficial financially. We accomplish this by selling a position with a temporary loss and purchase something similar, but not identical, to what we sold. This allows us to book current and future tax deductions. We also have been monitoring the portfolios on a daily basis. Even though it has been a difficult environment, we have found opportunities to replace funds that have been performing badly, relatively speaking.

Is there hope?

Yes! In spite of recent market declines, there remain fundamental reasons to be optimistic. The current total net worth of US households remains at $56 trillion, roughly 5 times disposable income and nearly an all time high. Oil prices have declined from $140 per barrel to just below $40. Price to earnings multiples in the S&P 500 is currently the lowest in 20 years. And finally, the government stimulus package introduced in this crisis, in terms of speed and size, has been unprecedented historically. For these and other reasons, we have positive expectations.

Any final words of wisdom?

We think you are collectively doing an amazing job in dealing with this very rough period. To remain focused on our long-term objectives, looking out two or three years rather than next week or month, will remain a critical task regardless of your age.

Removing yourself, at least in part, from the daily news and incessant fear-driven noise can't hurt. Listen long enough to this stuff and you will be convinced that The Great Depression II is right around the corner. We think chances of that happening are very remote.

We have made an effort to keep our website up-to-date with information that you may find useful, and perhaps a bit more encouraging than what you may see and hear in the normal media outlets. Be sure to check it from time to time for updates.

And finally, try not to punish yourself by constantly looking at your accounts online or studying your brokerage statements and comparing them to what you had at the top of the market. You know it's not going to be pretty, and the last several weeks, unfortunately, have brought much more of the same.

We are undoubtedly in a painful stretch and, good or bad, we are all in it together. It is important to remember that things are never as good or as bad as they seem when it comes to wild swings in the financial markets. Despite the current gloom, we think it is safe to state that our current markets, while seemingly broken down at the moment, are not down for the count. To the contrary, even when tested to the limit, they have proven to be remarkably resilient.

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