<p></p> <p>Last week we made a post about Fat Tails and how wild swings in the stock market are the rule, not the exception.� May 6th's "Flash Crash" was a perfect example of that.</p> <p>This week, I am releasing an email I sent out to all of my clients on that Thursday night where the market dropped almost 1000 points.</p> <p>Things are set up to see volatility in the markets over the next few months. Hopefully, you have learned from other posts on this website and built up your portfolio allocations across broad global asset classes. That will help temper the storm.</p> <p>There are additional strategies you can follow that will further insulate your hard earned wealth from the downward potential in the market. One of these actually pays you to ride the roller coaster. While this strategy should only be executed in a professionally managed account (don't try it at home), it has helped a number of my clients sleep better at night, knowing that they are as prepared as possible for the turbulent seas that lie ahead. In fact, they almost look forward to that turbulence, because they know they get paid more the wilder the ride gets.</p> <p>If you're interested in learning more, I hope you will give me a call and set up an appointment. Sorry, I don't have any classes set up on this strategy yet. In the meantime, I hope that you find the following letter to be of value to you:</p> <h3>Dear Concerned Investor ...</h3> <p>Thursday, May 6, 2010 - 10:45pm</p> <p>Today was a wild day in the stock market ... It is all over the news and is building a buzz. It was an extraordinary day in many ways. I wanted to touch base with you quickly to offer a little perspective on the news you will hear and the conversations you will undoubtedly be engaged in over the next few days / weeks.</p> <p>If you have any questions or concerns, I want you to call me. This is the beginning of another rocky section in the investment markets. You cannot escape it. The news will find you. It is better to understand what is going on and know your situation exactly. It will help you sleep at night.</p> <h3>The Greece / Sovereign Debt Issue</h3> <p>The headlines say that the 'Greece' problem is the basic cause of this violent turn in the market. Indeed, Greece's debt issues are probably the spark that started the fire, but the fuel was already there. The conditions were right. It only took the spark to light the firestorm, but now that things are blazin' it will be difficult to put it out.</p> <p>There is a global sovereign debt issue that has been building for years (if not decades). Greece is in debt up to their eyeballs, true. So is Spain and Portugal. What is worse is that these loans are spread out among European banks who are still weak from the last financial crisis in 2008. If Greece defaults (and I think they will), it will create pain all around Europe. The $140+ billion Europe and the IMF (which US taxpayers support heavily) will throw at Greece is a drop in the bucket. When you look at the debt picture for almost all developed nations, globally we're all messed up.</p> <p>The truth is we never really addressed any of the root problems that caused the first financial crisis in 2007-2008. In fact, we only exacerbated them while we 'kicked the can down the road' with stimulus patches, bailouts and massive government spending - all in hopes those problems would go away. They haven't. They won't. Eventually we will see them again - only bigger and badder than they were two years ago.</p> <p>You cannot solve a debt crisis by adding on more debt. It just won't work.</p> <h3>Goofy Trades</h3> <p>The market was in the midst of a relatively orderly (but significant) decline until 2:30pm EDT when some unusual trades were executed. The story is that someone

entered an order to sell a billion shares of something when they meant sell a million shares. I don't know that I can believe that one operator error could cause the whole market to implode (the Dow went from -250 to -998 in a matter of minutes). That doesn't pass the smell test to me.</p> <p>I have spoken today with other advisors and traders, some of whom watch the tape VERY closely. The consensus is that there were many trades that were unusual and it was odd that they were all coordinated in a very short time frame. Others have suggested that some trades today were "slowed" while computerized trading continued at a high-frequency pitch. Those computer trades couldn't find buyers (because of the slowed regular trading) causing the prices to drop like a rock.</p> <p>I don't really know what happened. I doubt any of us will find out the truth of the matter for years (if ever). I do know that with the severe price swings on many many stocks, a few insiders made a boatload of money buying on that 9% dip. Was the market manipulated? It is possible. Manipulated from inside? That is possible, although there is also the possibility that a computer system was corrupted - an investment version of cyber-terrorism. This is not out of the question, either.</p> <p>We simply don't know and can't control it.</p> <h3>How We Navigate This</h3> <p>Part of my work as your investment manager is to build an investment portfolio that helps you build wealth in all environments. This strategy is also designed to protect your wealth from down drafts like today, even crazy markets with "fat fingers" and computer trading run a muck. As such, I employ a globally diversified asset allocation approach. Over the past 18 months, I have purposefully and tactically shifted that allocation towards bonds and away from equities.</p> <p>The result is that my average portfolio of $85,000 lost $700 today. Had it been invested 100% in equities, it would have lost between $2200 and $2800 (depending on how much was in European companies). Now nobody likes to lose money, but investing always comes with risk. My job is partly to immunize the portfolio from as much downside risk as possible and we certainly did OK with that today.</p> <p>The challenge I have is that the bond-heavy tactical move (which has worked well for 28 years and worked pretty well today) is not going to be a solution as this sovereign debt problem continues to unfold. Interest rates will eventually start to rise and when they do, bond prices (especially on the longer end of the yield curve) will get hammered.</p> <p>Moving from equities to bonds will be jumping from the frying pan into the fire.</p> <p>There are solutions to this issue and we have implemented (or are in the process of implementing) them. If you have questions about these strategic adjustments, let me know and I'll be happy to meet and discuss them with you. (note: the strategy alluded to at the beginning of this article is that strategic adjustment)</p> <h3>Summary</h3> <p>We are in the early stages of a brewing storm. The news is likely to get worse before it gets better. Greece's debt problems are only the tip of the iceberg. Today's price action in the market was a rare anomaly, although it could happen again. No matter what, it is important to be aware of the risks to which your wealth is exposed. It is also important to keep your head and stick to your financial game plan.</p> <p>If you have questions or concerns ... call me. If there is one thing I learned in getting through 2008 it is this - communication is the key. It really does make things better for everyone.</p> <p>Thanks,</p> <p>John</p> <p><a href="http://www.facebook.com/share.php?u=<url>" target="_blank" onclick="return fbs_click()">Share This Article on Facebook </p> <div id="_mcePaste" style="overflow: hidden; position: absolute; left: -10000px; top: 1399px; width: 1px; height: 1px;"> <p style="margin-bottom: 0in;">sabotaging</p> </div>