October 2008 *MoneyMinute* – Is It Different This Time?

By Jennifer Cray, CFP®

Now that the House finally has passed the $700 billion bailout bill, everyone can breathe a bit easier this weekend.

Even so, the anxiety from the past several weeks remains. And when third-quarter account statements land in mailboxes starting this week, investors won't like what they see.

If that weren't unnerving enough, the worldwide financial services system has seized up, and a recession looms. Amplifying all of this is media hyperbole. News stories use words like meltdown, panic, even the D-word: Depression. No wonder even the smartest people on Wall Street are running around with their hair on fire.

Besides losing their jobs, what has them so spooked? What they fear is that it's more than just a bear market. Somehow it feels different this time.

But have the rules of investing really changed? We don't think so. Yes, the situation is very serious. But capitalism has survived disasters in the past, and we have no doubt that the U.S. economy is fundamentally resilient enough to eventually crawl out of this hole, as deep as it seems.

"Is It Different This Time?"

What's missing in all the commotion is perspective. Weston Wellington of Dimensional Fund Advisors (DFA) has watched the media react to one crisis after another over the years. His is a voice of calm and sanity amidst all the noise.

He has prepared for DFA advisors a video titled, "Is It Different This Time?" Some of our clients have already seen this, and we think you too will appreciate this 17-minute trip back in time to financial episodes of the past.

Note: There are two charts at the start of this presentation that require some explanation:

Market Premium: The blue line depicts the monthly Market Premium: the **difference** between the US Market Return and 1-month T-bills. The average difference is 53 basis points per month, or 6.5% per year over T-bills.

S&P 500 Index Returns: This charts the monthly return on the S&P 500. Again, the blue line shows the variation in the actual monthly return. The gold average line depicts the average monthly return on the S&P 500 of 84 basis points per month, or approximately 10% per year.

Right after these charts is a rather amusing parade of doom-and-gloom headlines that turned out to be flat wrong. See below for link to video.

Planet Money

As the video demonstrates so well, the media has a hard time getting the story straight when it comes to the economy, and markets in particular.

A notable exception is a new blog and daily podcast from National Public Radio called Planet Money.

Planet Money reporters are finding the right people and asking them the right questions. The answers are in clear, everyday language that brings clarity to a very complex situation. Planet Money was inspired by "The Giant Pool of Money" radio broadcast from Chicago Public Radio earlier this year.

"The Giant Pool of Money" may be the single best explanation we've heard of the subprime mortgage mess. At last, you'll get the answer to "What were they thinking?"

As always, uncertainty about the future drives fear in the markets. Short of a crystal ball, the best antidote to this anxiety is knowledge. When you understand what's going on, it's easier to make rational judgments. These broadcasts are well worth your time.

With all the drama regarding the financial system and the bailout bill, it's natural to worry about your future. But just remember: Historically, the best time to invest has been when everyone else thinks you're crazy. Don't let the headlines keep you up at night.

"Is It Different This Time?" video: http://www.dfaus.com/library/videos/different/

Planet Money blog postings and daily podcasts: http://www.npr.org/blogs/money/

To subscribe to Planet Money podcasts:
http://www.npr.org/rss/podcast/podcast_detail.php?siteId=94411890

"The Giant Pool of Money": http://www.thislife.org/Radio_Episode.aspx?episode=355. Listen online, download, or read the transcript.

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