



PERSONAL FINANCIAL ADVISORS

Cutting Through The Haze of Media Hype

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In determining which way the wind blows on Wall Street one must make sure to follow long-term signals to be successful. And success often means to avoid listening to short-term static that can cause long-term financial planning problems. Currently, we've all seen higher volatility in the general market due to a drop in consumer confidence and the sub-prime mortgage issues trickling through financial stocks.

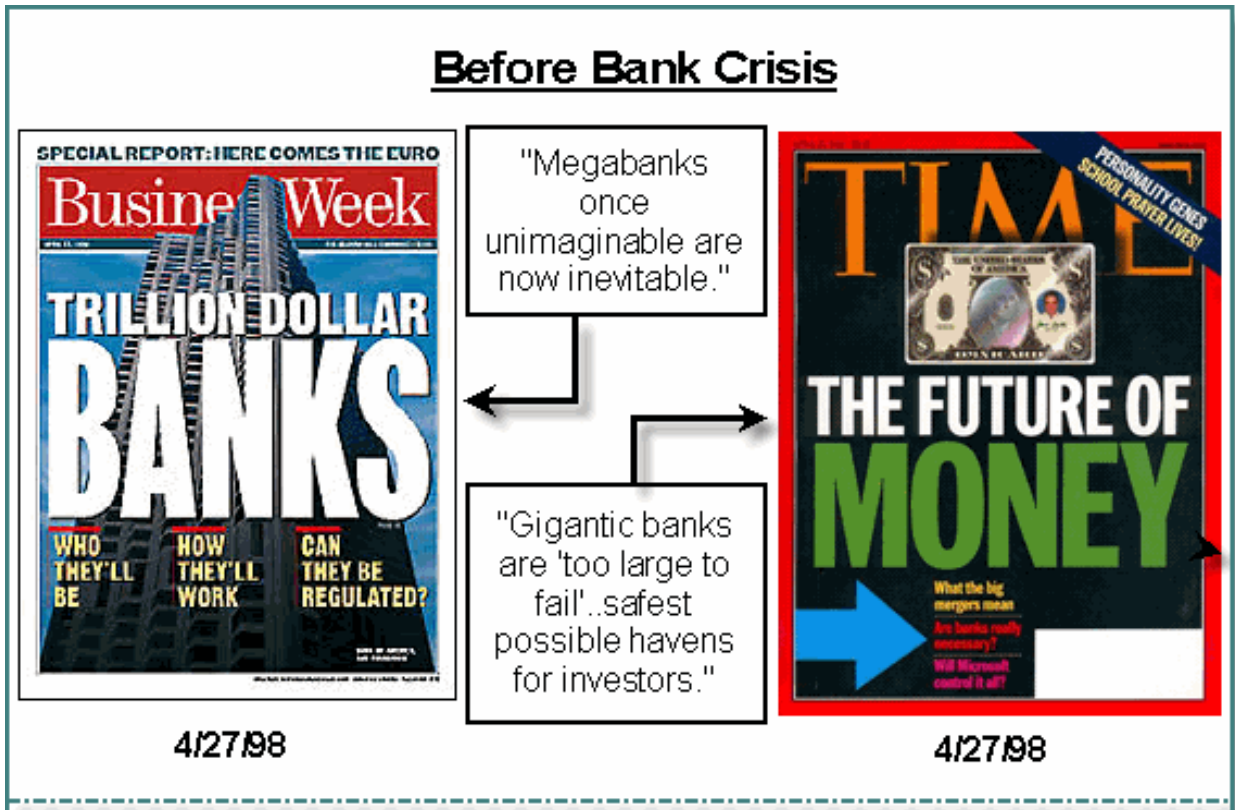


Fortunately, our portfolios avoided taking a direct hit not by chance, but rather by using our “relative strength” discipline. The relative strength tool simply measures the likelihood of a market area performing better or worse than other areas of the market.

For instance if you avoided the international, mid and small cap areas of the market for the last five years you've missed out on a large upside in the market and for many this can also mean they missed out on substantial gains. Using relative strength discipline takes the emotions out of many decisions and forces us to move to other areas of opportunity. This ongoing process never stops and constantly challenges us. We call relative strength the “wind” in our sails.

In looking back over the last three years of weekly investment committee meeting notes we were indeed warned in 2005 to stay away from financial sector stocks. And that is just exactly what we did. No rosy outlook articles or financial data influenced our decisions on what areas of the market to focus on. We simply moved to areas that had the wind at their back and avoided those that did not.

Take the last financial crisis in 1998 for example. If you listened to the magazine covers early in 1998 your best bet for the long-term was in Megabanks! Investors were in love with financial stocks and were led to believe they *could do no wrong*.



But by the fall of 1998 money started to shift away from these stocks as the Asian currency and Long-Term Capital's liquidity crisis took hold. In the summer of this year, however, big money started to move away from the financial market and into technology. Boy were these articles wrong!



It's almost like you could change the dates on these articles to the beginning of this year. The chart below provides some perspective on the Banking and Financial stocks and just how they fared during the 1998-2000 period compared to today's decline. In looking at Wachovia [WB] as an example you can see it down 60% from it's highs in the current and 1998 correction. At both times the stock reached the same \$24 low.

Sampling of Financial Stock Movement in 1998 Compared to Today

Symbol	1998 High to Low Dates	1998 Chart High	Correction Low on Chart	% Correction	Current Chart High	Current Chart Low	Current Correction %
KEY	Apr '98 - May '00	44	16	-63.64%	39	19	-51.28%
WB	Jul '98 - Nov '00	65	24	-63.08%	60	24	-60.00%
C	Jul '98 - Oct '98	33	13.5	-59.09%	57	18.5	-67.54%
BAC	Jul '98 - Dec '00	44	18.5	-57.95%	55	34	-38.18%
NCC	Apr '98 - May '00	38	16	-57.89%	38	9	-76.32%
USB	Apr '99 - Oct '00	35	15.5	-55.71%	36	31	-13.89%
CMA	Apr '98 - Nov '00	73	33	-54.79%	63	35	-44.44%
JPM	Jul '98 - Oct '98	51	24	-52.94%	53	37	-30.19%
BBT	Apr '98 - Mar '00	40	22	-45.00%	43	26	-39.53%
MI	Apr '99 - Nov '00	28	15.5	-44.64%	40	21	-47.50%
STI	Jul '98 - Sept '98	87	54	-37.93%	94	54	-42.55%
MTB	Jul '98 - Feb '00	58	36	-37.93%	124	71	-42.74%
STT	Apr '98 - Oct '98	37	24	-35.14%	80	70	-12.50%
WFBC	Mar '98 - Sep '98	21	14	-33.33%	37	25	-32.43%

To avoid getting caught up in the hype of news stories and subjecting portfolios to declines such as the bank stocks, we used relative strength as a guide to step back and take an objective look at the market, sectors, and individual stocks through the eyes of a logical, organized process. Again, while it may have been of some surprise to some investors that the financial markets were in trouble, it was no surprise to those willing to listen to the relative strength warning signs given many months ago. No we don't know the exact outcome nor the reason behind relative strength turning negative, but that is okay. What we do know is that once it turns negative for a market area, the odds are no longer with it and the wind is in your face, not at your back

Looking forward you can expect us to consistently move away from high risk through the use of our clear headed and sane relative strength approach while paying little attention to the main stream media. In fact, we may use it as contrary indicator.

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