Ashley Financial Services

From: Ashley Financial Services [ashleyfinancialservices@verizon.net]
Sent: Friday, October 10, 2008 2:59 PM
To: Ashley Financial Services PA CPA
Subject: There will only be 1 end of the world - this is NOT it
Attachments: A Short Banking History of the United States.pdf

Good afternoon:

I know it's painful to watch the financial news detailing, in real time, the continuous, magnanimous plummeting of global stock markets.

Here's what you need to understand & keep reminding yourself TODAY – so you can safely turn the channel or turn off the TV, freeing yourself to relax and enjoy your life and other "good things." I've outlined a few overly-simplified points below:

- As you know, subprime mortgages (i.e. "toxic assets") on the balance sheets of banks and lending institutions led us into the credit crisis.

- Now, credit markets are the root of the stock market plunge. Banks' access to funds is restricted – (still lacking liquidity of cash flows – pending the hoped-for positive impact from the Congressional "rescue package.") For now, banks are too nervous to lend much of their money out of their cash reserves.

    - While individual, small business, & large corporate borrowers are suffering from lack of access to current financial funding – those consumers, businesses, & corporations with sufficient cash reserves – or who are debt free, are not directly suffering from this factor.

- Banks also lend money to other banks. However, amid uncertainties over which banks will survive, and which will fail under the current credit tightening, lending is being choked off, as the LIBOR has risen sufficiently to make it awfully expensive for banks to borrow their needed funds.

    - LIBOR (London Interbank Offered Rate) is the interest rate at which banks borrow funds. It is a daily rate determined by the British Bankers' Association, representing the filtered average of the world's most creditworthy banks' interbank deposit rates for large loans.

- In turn, the <u>credit</u> crisis led to a <u>confidence</u> crisis with panic-selling of stocks – the good ones along with the bad ones.

    - <u>Mutual funds</u>: to accommodate panic-stricken investors, mutual funds have been forced to dump large positions of their stock holdings (first the bad ones, and now the good ones) in order to allow the mutual fund investors to "cash out" their investments.

    - <u>Hedge funds</u>: Hedge funds (which are only open to wealthy "accredited investors") impose mandatory restrictions on their clients' access to their cash. Cash redemptions are permitted only under very controlled time frames, determined by the hedge fund manager. The recent September 30th deadline for investors to request redemptions at year end showed record numbers for redemption orders – causing these funds to further dump stocks in order to raise the cash to accommodate nervous "accredited investors."

I know this briefing on some of the reasons the stock values are plummeting doesn't take away the pain from watching it happen. But, remember that stocks are still backed by actual operating companies - many with very healthy balance sheets (low or no debt) and free cash flows, increasing earnings, and dividends. Even in a recession, people don't stop consuming food, utilities, health care, energy, natural resources, etc.

Subprime mortgages (while valuation is currently in question) are still backed by actual real estate.

Healthy, operating companies and real estate still have fundamental value. They are not worth “zero” just because a sell-off of all investments has driven their prices down, in normal economic “supply meets demand” response.

Remember that when your investments are properly diversified, and you have sufficient cash to cover your financial needs in tandem with other sources of income (employment or retirement cash flows), you are not forced to make panic-driven decisions.

As I’ve said in the past, sometimes my most important role in serving my clients is to prevent them from derailing their own financial plan during times of panic.

Enjoy your weekend.

Best Regards,
JILL ASHLEY

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