Buena Vista Investment Management, LLC

Creative Investment Solutions

VOLATILITY IN THE STOCK MARKET

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If the S&P 500 finishes below 1270, this will be the seventh consecutive week that the stock market indexes will have declined. The last time and only time this has occurred was in the fall of 2001. Obviously, this type of setback is rare. The different averages have given back between 5-10% from their 2011 peaks. Most averages now are flat on the year in terms of return.

These retreats tend to trigger anxiety in the average investor. Memories of the 2000-2002 bear market and the 2008 market plunge are still very fresh in people's minds. The dramatic decreases in valuation in those time frames have led to some former market participants to vow, never again. The volatility is greater than their emotions can handle. Historically, emotional decisions have not been beneficial on a longer term basis.

It is easy to be bearish. The media is a constant reminder that the world has plenty of economic issues. Memories of the 1970s stagflation where inflation accelerated while growth was tepid are mentioned repeatedly. Greece with their small economy is projected to fall off the cliff. What does that mean for Ireland, Portugal and Spain? In the United States, unemployment has remained at or above 9%. GNP forecast continue to fall. Government is threatening to not raise the debt ceiling.

So what does a person do? Fixed income is perceived to be safe but when you look at the interest rates on these investments, you find most are less than 2%. If inflation, as measured by CPI, continues at the same rate as the last 12 months (4%), you are receiving a negative return of 2-3% in real terms. It makes sense to have enough money invested in money market, savings, CDs and short term bonds to cover at least 18-24 months of expenditures. This gives you a security blanket knowing that you have your bills covered. However, if you invest all of your money at these rates, your returns will not be sufficient to cover the increases in your expenditures. This fact will lead to you needing to spend principal as these investments come due.

The Federal Reserve has repeatedly said that they will not be raising short term rates anytime soon. This lack of action means that returns on fixed income will remain low. Consequently, it might be wise to consider getting your yield from different investments. Currently, the dividend tax policy is capped at 15%. This policy has resulted in many companies instituting strategies of raising their dividends each year. These stock dividends provide returns which are greater than fixed income and they have the ability to increase that payout each year. In addition these stocks can also appreciate in value. Finally, these types of investments tend to hold their values much better than the overall market when volatility sets in. There are several specific areas that you could invest in to benefit from this dividend strategy. Master limited partnerships, real estate investment trusts, telecoms, pharmaceuticals and tobacco stocks have dividends which are yielding 3-9%. You can purchase ETFs and mutual funds that specifically invest in this type of strategy as well. With the markets down, it may be a great time to invest in income producing stocks!!