

Five lessons learned in 2009

Tumultuous times have a lot to teach us

Provided by Scott Sparks CLU, ChFC, Northwestern Mutual - Denver

Both individual investors and business owners probably learned a lot from the economic ups and downs of the past year. As 2009 draws to a close, it's valuable to reflect on five important lessons:

MARKETS ARE UNPREDICTABLE

As the year started, the markets continued the volatility begun in 2008. In the first quarter, the Dow Jones Industrial Average fell nearly 16 percent. Yet starting in April, the Dow began to rise, closing up 30 percent at the end of October. At the start of the year, not many people predicted such large gains. 2009 serves as a reminder of just how unpredictable the markets really are.

With so many unknowns, it can be easy to let emotions run your investing and business decisions. But the recent recession was a good reminder that there is little room for emotion in those arenas. Instead, 2009 proved a good time for rethinking financial behavior and plans, including spending and saving patterns.

SAVE MORE, SPEND LESS

One of the most critical lessons of 2009 was to re-examine spending and saving habits. Over the course of the year, many consumers began to save more and spend less. And some began to get a better handle on their debt loads.

The same was true for many business owners, who found they needed to be more cost effective-trimming excessive

expenses and creating leaner, more productive staffs. Companies that took this action early were able to keep bottom lines up, even if revenues declined or were flat.

HAVE A PLAN

While rethinking saving and spending efforts, the year also taught many people that creating a well thought-out financial plan is crucial to financial success, personally and professionally. A good plan will take into consideration all of your goals and provide a roadmap to achieving them – no matter short-term macroeconomic ups and downs. To develop this important roadmap, many people find it valuable to seek out professional advice and counsel.

STICK TO THE PLAN

Looking back to 1926, there were seven periods with economic drops of at least 25 percent for 12 months or longer. Each was followed by a recovery period, but recovery took upward of three years. Historically-and 2009 is no exception-it has proven best to be patient and not panic, though this is often difficult for many of us to do.

A diversified portfolio may be one of the greatest assets in a financial plan. A diversified portfolio may be able to make gains back more quickly than one with a less diversified asset mix. In general, this year "safe" investments like short-term bonds proved to work only for the short term, not the long

run. While a diversified portfolio may seem difficult to maintain at times, for most people it is generally better to stay on course.

SEEK OUT ADVANTAGES

Government intervention created opportunities for consumers and business owners in 2009. Programs to encourage purchasing automobiles and homes, with credit for buyers, also stimulated the economy. More liquidity was pumped into the market to propel the economy forward and keep interest rates low.

This allowed many businesses and individuals to lock in low interest rates on debt and access credit. Where appropriate, tax-loss harvesting allowed many to sell at a loss in order to offset tax liabilities. Looking for these advantages can be a solid part of your planning as they continue to emerge in the future.

For business owners and investors alike, the challenges of 2009 can offer insights into the future: create a plan, diversify and take advantage of opportunities.

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