

Investment strategies in the current market environment

The U.S. stock market, over time, tends to move upward in sync with the growth of the U.S. economy. However, this movement is anything but steady. Consider the performance of that widely followed index of large company stock performance, the Dow Jones Industrial Average (DJIA), over selected periods. Such consideration reveals that the market has stalled for extended periods.

In January 1906 the Average passed through 100 for the first time, peaking at 103 on Friday, the 19th. In the decades that followed, the DJIA had its ups and downs, most notably the explosive run-up from 1921 to 1929, and the disastrous collapse from 1929 to 1932. In the end, though, it was not until July 2, 1942, that the 1906 high was left behind for good.

Another stall occurred at the psychologically significant 1,000 level, which the DJIA first approached in early 1966, peaking at 995.15 on February 9. The Average approached or breached the 1,000 threshold on several occasions over the succeeding years, but didn't leave it behind for good until December 1982.

The boom of the 1990s brought the DJIA to its peak at 11,722.98 on January 14, 2000, before entering what became a major bear market. More recently, the market began to rise, and during 2005 it hovered in the 10,000s, finally topping 11,000 in January of this year.

Right now, nobody can tell if we have reached a plateau, or how long it will be until the market goes on to new highs. Many observers believe that the equity markets will resume their upward trends, but they are cautious about when and by how much prices will rise. What follows are some suggested strategies to make the most of the current environment.

Balance

Asset allocation gains in importance in difficult financial times. Asset allocation is the process of dividing investments among different kinds of assets, such as stocks, bonds, real estate, and cash, to optimize the risk/reward trade-off based on an individual's or institution's specific situation and goals. Studies have indicated that asset allocation is the most important long-term determinate of investment results.

Spread the risk

Some assets and some sectors of the market undoubtedly will do better than the broad averages, although some inevitably will do worse. The safest course is not to concentrate in any one investment. It is said that small companies and value stocks tend to lead the market out of slumps, and it is certainly prudent to allocate a portion of one's portfolio in those directions. However, in many ways, this has not been a typical slump, and it may be unwise to count too heavily on a typical rebound.

Dollar-cost average

Regular periodic investments in a well-diversified stock portfolio allow investors to take advantage of price declines to build up positions and then to buy fewer shares as the price rises. Although it may take courage to continue investing as the market swoons, and there is no

guarantee that this “dollar-cost averaging” will produce a profit, it does lower the average per share price, increasing the chance of ultimate success. Such a plan involves continuous investment in securities regardless of fluctuation in price levels of such securities. An investor should consider their ability to continue purchasing through periods of low price levels. Such a plan does not assure a profit and does not protect against loss in declining markets.

Rebalance

Periodic rebalancing is usually recommended as the way to keep a portfolio on target toward the goals for which its allocation of assets was selected. Relative performance of the various assets in your investment portfolio can move you off the risk profile that you chose when you put your investment plan into action. The obvious example of this situation is the spectacular performance of the U.S. stock market between 1995 and 1999. If you moved your stock gains into bonds each year, you would have sacrificed further gains, but you would have lessened the full effect of the more recent bear market on your portfolio.

Seek guidance

There is no certainty that the market will present the lackluster performance that these strategies address, or how long such an environment might persist. For that reason we urge you to schedule a strategy session and portfolio review with one of our professional financial advisors. Then you’ll want to stay in touch with him or her on a regular basis.

Small-cap stocks may be subject to a higher degree of risk than more established companies’ securities. The illiquidity of the small-cap market may adversely affect the value of these investments.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

Securities and Insurance Products are offered by LPL Financial, member FINRA/SIPC, and its affiliates. _____: Not registered broker dealer(s); Not affiliated with LPL Financial.

Investment Products Are

Not FDIC/NCUA Insured	Not Bank/Credit Union Guaranteed	May Lose Value
Not Guaranteed by any Government Agency		Not a Bank/Credit Union Deposit

Dollar cost averaging does not assure a profit or protect against loss in declining markets. Additionally, since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his/her financial ability to continue purchasing through periods of high price levels.

Asset Allocation cannot guarantee a profit or protect against loss.

© 2006 M.A. Co. All rights reserved.
Any developments occurring after January 31, 2006, are not reflected in this article.