Dow drops 588 points in wild day of trading

HIGHLIGHTS

Triangle financial advisers counsel investors to stay the course

Fundamentals of the U.S. economy remain sound, advisers say

'Correction is a normal part of the market process – not a pleasant one'

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The gut-wrenching volatility in the stock market continued in a wild day of trading Monday as investors responded to a worldwide sell-off and a slowdown in China, the world's second-largest economy.

The Dow Jones Industrial Average, after plummeting more than 1,000 points in the first several minutes of trading, rebounded somewhat but still ended down 588.40 points, or 3.71 percent, closing at 15,871.35 points.

A number of Triangle-based companies were caught up in Monday's sell-off. BioCryst Pharmaceuticals, INC Research, Red Hat, Martin Marietta Materials, PRA Health Sciences, Stock Building Supply, Ply Gem Holdings and Highwoods Properties all saw their shares decline more than 4 percent.

Still, Triangle financial advisers are by and large telling their clients to take a deep breath and stay the course.

"The best approach to achieving financial goals is with a well-diversified portfolio that doesn't bounce around as we get scared or overly enthralled with the headlines of the day," said financial planner Ben Birken of Woodward Financial Advisors in Chapel Hill. "We design a portfolio based on long-term beliefs and we stick to those beliefs even when the newspaper headlines are in 30-point bold font saying the sky is falling."

The computerized trading systems used by large institutional investors helped drive the market's steep decline on Monday, said Raleigh financial planner Frank Smith. Such systems automatically make trades when a certain trigger, such as a specified price, is reached.

"For the market to drop 1,000 points (at the outset) this morning was ridiculous," he said.

"All markets, when they start in one direction or another, they become overdone," Smith noted. "If it's going down, it always goes down far more than is justified. And, on the contrary side, when the markets go up, they often go up too high – more so than is justified by the fundamentals."

'Not like 2008'

There is no one-size-fits all investment advice because each investors' individual financial situation, investment portfolio and tolerance for risk are unique.

But, in general, Raleigh financial planner James M. Richardson of Richardson, Carrington, Weaver and Associates has been telling clients: "Fundamentally, we don't see anything particularly wrong with the American economy right now. ... This is not like 2008. People think there's a parallel but it's not the same conditions. This is largely being driven by international issues."

By contrast, the financial crisis was triggered by a combination of domestic problems, including a nationwide real estate slump and lenders that had extended mortgages to "subprime" borrowers with poor credit histories and then bundled them into supposedly low-risk securities.

Richardson said his firm hasn't been hearing much from its long-standing clients because the firm has long cautioned that "the summer time can get ugly, and August can get particularly ugly."

"We also tell them that a correction is a normal part of the market process – not a pleasant one, but it is normal for markets to correct," Richardson said.

In Wall Street parlance, a drop of more than 10 percent is a correction.

Still, Richardson said, if a client is especially nervous about the turmoil in the markets it may be time to reassess their tolerance for risk and perhaps reduce their holdings in stocks a bit. A small move in a person's portfolio, he said, is typically enough to calm them down.

"Basically, you are paying for peace of mind when you do that," Richardson said, noting that putting money in safer alternatives such as cash or short-term bonds doesn't offer much upside with interest rates so low.

Ben Brooks, director of wealth management at Capital Investment Cos. in Raleigh, offered a similar assessment.

"In my humble option, this is a very normal correction after a six- or seven-year run in a bull market," he said. "I've expected this to come at some point, just not knowing when."

It's been a bull market for stocks since the market bottomed out in March 2009.

Brooks expects the market to rebound in the coming weeks and said that selling stocks only makes sense right now if it's a financial necessity, or if an investor wants to lock in some losses for income tax purposes.

"If you're a long-term investor," Brooks added, "it's a great time to put money in the market – a whole lot more than a week ago."

Avoid energy sector

A strong-performing company such as Apple, Brooks said, is really no different today than it was 30 days ago. "Why would you not buy now if you liked them a month ago?" he asked.

Apple shares fell 13 percent early Monday but climbed back after CNBC's Jim Cramer reported receiving an email from CEO Tim Cook touting that the iPhone-maker has seen "strong growth" this summer in China. Apple shares closed 2.5 percent lower.

But Brooks advises investors to avoid buying natural resources stocks, such as oil and gas companies. The energy sector is down almost 25 percent this year after falling 5.2 percent on Monday – the biggest decline of any sector.

"We're seeing oil prices possibly dropping to $30 a barrel, which is something none of us would imagine in years past," he said.

Janet Fox, president of ACH Investment Group in Raleigh, said she heard from several clients at the end of last week inquiring whether now was the time to buy.

Fox also expects the market to rebound but advised them to wait until the dust settles first. She expects to talk to them again over the next several days.

"I said to them, let's wait and see," said Fox. "Let's at least see where we're headed. If we don't buy ... at an absolute low, at least we'll have some stability."

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