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Planners urge investors to sit tight

They say sell-off was expected and could be good time to buy

By Peter J. Howe, Globe Staff | February 28, 2007

Yesterday's rout in global stock markets, initially triggered by a market panic in China, is likely causing millions of US investors to evaluate what they should do in response: run, dig in, or start buying.

Here are answers to some of those kind of questions investors may have:

Q Should I sell stocks today -- or buy?

A Many financial planners say sit tight, don't panic, and maybe even consider buying.

Richard Robb , a partner at Capital Management Partners LLC in Peabody, said US investors should hold tight and not be influenced by issues relating to Chinese stock markets, where yesterday's global sell-off began. "To immediately react to a single emotional event -- that technically wasn't even related to the US market -- just doesn't make good investment sense."

And some professionals said a big pullback such as this was to be expected and therefore is no reason to add to a sell-off. **Ted Yoos**, president of Cornerstone Financial Management LLC in Sudbury, said the market was overdue for a correction. "This is just normal stock market behavior. People shouldn't panic and sell, and if they money put aside that they want to put to work for the long term, like for five or 10 years, this might be a good time to consider putting some of that in the market."

Q Why shouldn't I panic? The market dropped 3.2 percent in a single day.

A First of all, this was the biggest one-day drop on a percentage basis in US stock markets since a March 2003 one-day drop of 3.6 percent. Moreover, if you believe that history tends to repeat itself, the long-term trend is for the stock market to rise. In the six cases when the Dow Jones industrial average fell 400 points in a day, CNBC.com data show, five times out of six the market was up a month later, by an average of 5.7 percent.

Moreover, stocks fell from extremely lofty peaks. The Dow was at an all-time high last week, and the Nasdaq and Standard & Poor's 500 indexes were at six-year highs. Many investors have about the same market value this morning as they did at the end of December.

Q So, stocks won't keep falling?

A They certainly could. In fact, one of the primary explanations for yesterday's huge sell-off in US markets was new reports suggesting that the American economy is finally slowing down. Few economists predict a recession coming. But the American manufacturing sector, including car makers, continues to struggle with foreign competition. The housing market remains weak. If Wall Street in coming days concludes a broader slowdown has begun, that will be bad news for stocks. Moreover, trading in several March stock future index contracts was down 4 to 5 percent late yesterday, showing many investors anticipate the Dow, Nasdaq, and S&P will drop next month.

Q What about dumping Asian investments since this wipeout began in China? Are they now too risky?

A Not necessarily too risky, but like a lot of emerging overseas markets, you should probably expect China's to remain volatile. One potential great positive from China's big plunge yesterday is that it appears to have been caused in part by the government's pending efforts to crack down on speculative investment, illegal share offerings, and other market manipulations. Efforts to make a better regulated, more stable, and honest stock market in China would, by making investments there safer, bode well for the long-term value and prices of Chinese stocks.

"If this was in fact triggered by the Chinese making a move that sounds like a good move long term, maybe people will say, this is a good buying opportunity," said Roy Komack , president of Family Financial Architects in Natick, which manages $105 million for investors.

Q What could this mean for the US economy and housing market?

A If the stock market is slow to bounce back or falls further, it could slow economic growth and prolong the slump in housing markets. If millions of US stock investors feel less wealthy, they may well feel less inclined to open their wallets and spend, and that could further chill the five-year economic expansion. Consumer confidence did, however, hit its highest level in 5 1/2 years this month, so it may take a lot to depress consumer spending and borrowing.

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