

## What Happens to Our Investments in the Event of Another Terrorist Attack?

*Many of our clients are worried about the impact of another terrorist attack. Government officials haven't helped the situation by stating repeatedly that they fully expect another terrorist attack on U.S. soil. It's almost as if they are giving us too much information, because they feel guilty for withholding information about September 11<sup>th</sup>. Naturally, we are all worried about the impact that such an attack would have on the victims and their families. However, we are also understandably worried about the impact such an attack could have on financial markets and our personal financial security. But, honestly, ask yourself-if we had been warned about 9-11, as we are now being warned about a possible attack, would we have done things differently financially? Would it be the same as the Y2K panic? Or maybe another dot-com flop?*

*So let's get to the big question: What would happen to financial markets in the event of another terrorist attack? There is only one honest answer to this question - we do not know. We could end this article right here. Nobody really knows. Even with all the information coming out about another attack, today we still have no clue when or where it could happen. We are still simply speculating, and speculation has no place in a sensible long-term investment strategy. Now, if you are satisfied with that answer, you need read no further. Those of you who are still tempted to take action, read on and you'll see why you might want to reconsider. If you read our article titled, "Are Alligators More Dangerous When You Can See Them Or When You Can't," you will notice similarities with this article, because the issue is really the same.*

*Although hindsight is 20/20, we could probably say the economy would actually be in worse shape than it is now, had we been constantly bombarded with news of the impending attack. Think about it...we never had an attack on U.S. soil! It would have possibly caused mass hysteria to even think about such a scenario. What about the panic this would have caused among Americans who have never experienced such an atrocity and actually thought it could **never** happen to us? Would everyone have pulled their money out of the market and stuck it under their mattresses? That probably sounds absurd, but that's what could have happened, had we been forewarned. What would be the effect of that on the economy? Definitely much worse! It would be a self-fulfilling prophecy. Usually we want to be proactive, but in the case of another attack, would being reactive (only economically of course) be such a bad thing for America's economy?*

*The main issue is the same as all other attempts to forecast the impact of future events on financial markets. That issue is that financial markets do not react to events based on their impact relative to the status quo. Financial markets react to events based on the difference between what is expected to happen and what actually happens. Therefore, because 9-11 was unexpected, we did not know how*

*to react. This means that to predict the direction of future financial market movement, we must both predict the future and accurately measure the market's expectation for the future. Is that realistic?*

*Because financial markets react to what is expected to happen, this would mean that another terrorist attack could possibly cause the market to rise. A stock can rise on an earnings decline if the decline is less than expected. Conversely, a stock can fall on an earnings increase if the increase is less than expected. For those of you who are still reading despite clear evidence that the authors are completely out their minds, consider the fact that we have all been waiting for the next attack since September 11, 2001; now over 2 ½ years ago. We are all waiting for the other shoe to drop. If the next attack is partially or completely averted or if the attack is very small scale, the market might actually breathe a sigh of relief. Maybe the next attack will show evidence that we are safer now; maybe it will show that we are making progress in the war on terrorism. That would be the ideal scenario!*

*We are not making any predictions here. We do not know what is going to happen. We are only suggesting that bad events can be good for the market if they are not as bad as feared. There are investors who are out of the market right now due to fear of another attack. Would they be buyers the day after such an attack?*

*The bottom line is there's not much we can do to protect our investments from another terrorist attack, because we don't know what element of the economy will be crippled, if any. And, conversely, if the attack isn't as bad as expected, it may not be a negative impact at all; that's why we prepare for the worst. Take a moment to think of what would happen if we constantly lived our lives in fear. Would we buy that dream car we always wanted? Would we go on vacation for fear of flying? Would we even go outside for that matter? The answer is no! But we have continued with our lives and have just learned to be more humble and appreciative of each day, to enjoy it to it's fullest. Okay, enough mushy sentiment, because I know you're still wondering: What about my money? As horrible a reality as it is, since it won't be the first time we've had an attack, the outcome could actually be better than we expect. Now, as far as what we can do personally to soften the blow, the only advice is continue to invest in a disciplined manner, and most importantly, the word you are tired of hearing...diversify, diversify, diversify!*