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Climbing The Wall Of Worry

Stocks have been all over the place in the last two months. The Dow was above 12,800 at the beginning of May, slid below 12,000 by mid-June, then climbed to about 12,500 by early July.

The market's skittishness tells us that investors are nervous about all sorts of things:

- unemployment stubbornly holding above 9% (it's 9.2% if you believe official figures)
- continued weakness in the housing market
- political wrangling over the raising of America's debt ceiling
- the highest trade deficit in three years
- possible repercussions from the ending of QE II in June (that's the Federal Reserve's second Quantitative Easing package which expired June 30th)
- sovereign debt crises in Greece Italy, Spain, Portugal, Ireland, and who knows where else
- the Arab Spring (revolts in some oil-exporting Arab nations such as Syria, Libya, Bahrain, Tunisia and Egypt)

Are you nervous yet?

I thought you might be. And you know what? Your nervousness might just be good for your portfolio. Here's why.

Prices Reflecting Reality

Earlier, stock prices may have risen artificially because of the massive sums injected into the economy after the financial collapse. But now, with the end of QE II, each company's stock price is beginning to reflect its competitiveness and profit potential in the quarters ahead – which is how companies should be valued. Weak companies will see shares dip as investors put their money to work elsewhere. Strong companies will likely benefit from this rush to quality. So, if you are a value investor, as many of my listeners are, good things may lie in store for you.

Climbing a Wall of Worry

I've spoken before about the benefits when investors have to climb a wall of worry. It makes them evaluate the repercussions – on their stocks - of everything that they are worried about. In so doing, they tend to gravitate towards high quality companies with good prospects in even a weakened global economy. If climbing a wall of worry is what gets investors to top quality companies, so be it… and I am all for it. Also, once again, if investors are worried, stock prices are usually more fairly valued.

Good is Great

When there is so much to worry about, even the smallest good news comes as welcome relief. On the flip side, when investors are drunk on a *bubbly* stock market, they tend to disregard good, solid news and punish companies overly. The current doom and gloom opens up the real possibility of a pleasant surprise over the next six months. We, hopefully, may just find out that things aren't so bad, and that could boost shares once again. If that happens, it'll likely boost high quality companies only as chastened investors stay away from random stocks.

Dividends Again

When markets are high, investors often disregard solid, dividend paying companies in favor of high flying stocks. But when times get tough, many companies bring back or boost dividends to attract investors. Some large companies pay well over 3%, which can add nicely to your returns. Also, companies will buy back their own shares, which spreads the wealth to existing shareholders-another way your company share price might increase.

Low Interest Rates

When the economy is weak, central banks prefer holding down interest rates to keep the economy from getting worse. Weak demand also keeps a lid on prices. Both, low interest rates and low inflation can be good for corporate bottom-lines and for the stock market as a whole.

I believe it's a good thing when investors do not take stock returns for granted, as they have many times in the past. This nervousness from time to time is like a cathartic awakening that makes investors realize, some of their follies makes them clean out the junk in their portfolios and makes markets healthier for the long run.

One Final Thought

Everyone has a story about how they just KNEW they should have gotten out of the market prior to the crash of 2008. Or how they knew they should have bought real estate in 2002. They recall their gut feelings and perhaps a phone call to their advisor telling him to sell. The point is that it is the action –whether you sold or not--that matters not the thought. Thinking about it does not reduce risk or create gain.

So many today are worried about the stock market and are still unwilling to step in and take some risk. As the economy continues to grow and markets rise ---over time—it will be the action you take today which will determine your future.

Just thinking about it will get you nowhere.