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News from Japan Shakes Global Markets

Investors worldwide rushed away from risk Tuesday in the wake of Japan's tsunami and nuclear disaster, with Tokyo's benchmark NIKKEI 225 Index plunging 11% after being down as much as 14% during the day. U.S. markets also declined, with the Dow Jones Industrial Average dropping 137.74 points, or -1.15%; the broader S&P 500 Index down 14.52 points, or -1.12%; and the tech-heavy NASDAQ composite falling 33.64 points, or -1.25%. All three had been down considerably further before firming late in the session.

The human toll in Japan is tragic and still unfolding. In addition, there is unquestionably going to be an impact on the Japanese economy, the world's third largest, which was already on unsteady footing. However, while the full extent of that impact will not be known for quite some time, it's difficult to believe that Japanese companies as a whole were worth 11% less on Tuesday than they were on Monday.

Investors inevitably react to catastrophic events by seeking safe havens for their assets, a response that caused prices for U.S. Treasuries, European government bonds, Swiss francs and other traditional places of refuge to rise on Tuesday. This immediate response, while certainly understandable, is rarely the best long-term course of action for investors.

It's important, particularly at times like this, to distinguish between price and value. The price of any given stock is what someone is willing to pay for it at the moment an investor chooses to sell. The value to the investor represented by his or her fractional ownership of the company issuing the stock is something entirely different, and reflects not the mood of the moment but the long-term worth of the company. Although stock prices swing to the upside and to the downside in response to events, over time they follow the values of the companies they represent. These values very rarely change overnight.

It's also important to note, while likely overlooked, that there was good news on Tuesday. Federal Reserve Board Chairman Ben Bernanke told Congress that the central bank was seeing "increasing evidence that a self-sustaining recovery in consumer and business spending may be taking hold." Fed officials also said that "the economic recovery is on a firmer footing, and overall conditions in the labor market appear to be improving gradually. Household spending and business investment in equipment and software continue to expand." All of these are very positive developments for the ongoing U.S. economic recovery.

Please be assured that we are closely following the events in Japan, as well as continued unrest in the Middle East, and their associated effects on global and U.S. markets. Should we determine that their impact is sufficient enough to warrant a change in investment strategy, we will certainly let you know.

For more insight on this issue, including how Japan's troubles are not a factor in why consumers are paying more at the pump today, access a new Professionally Speaking audio presentation by Raymond James Energy Analyst Pavel Molchanov on our website at www.carterandcarter.com/latest-news.html.

The events in Japan are heart-wrenching, and we are likely to see more disturbing news coverage as the true scope of the disaster there unfolds. And while the economic impact on the Japanese economy and companies will be significant, there is nothing to be gained by reacting hastily and emotionally. If you'd like to discuss your long-term investment strategy – or have any questions or concerns about your portfolio – please give me a call. We want to thank you for your trust and business.

Sincerely,

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