WHAT NOW?

Quest's experts share their strategies for staying whole—financially and psychologically—during this time of uncertainty

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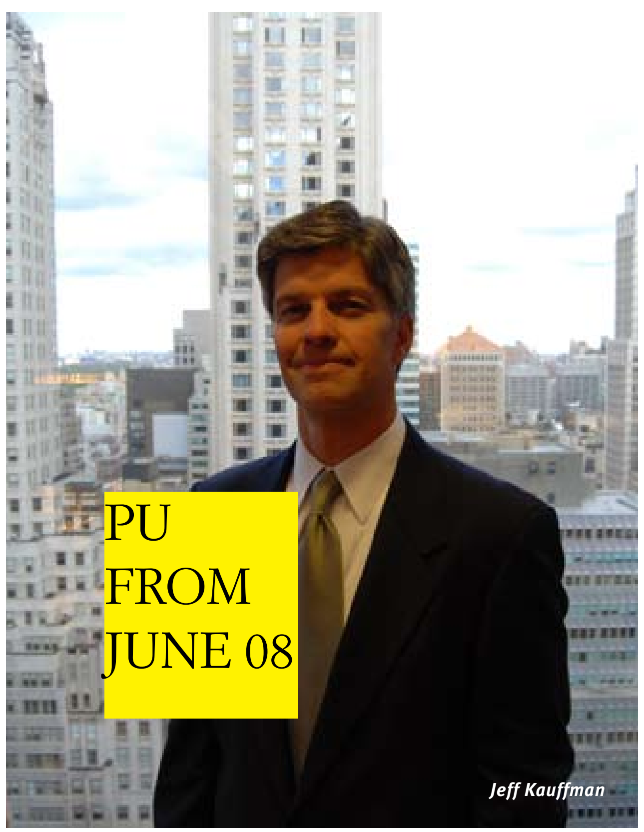
The unprecedented credit crisis of the past 14 months has produced severe economic damage throughout global markets. The impact of this damage is not yet fully reflected in important indicators like corporate earnings estimates and we expect daily volatility to continue.

We believe more time and the realization of recent government actions is required to complete the current, historic deleveraging cycle.

It is still too early to estimate when financial market pressure will abate. Accordingly, we are



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encouraging investors to remain defensive in their asset allocation strategies, and to maintain larger-than-usual cash reserves. Portfolio risks shouldn't be increased until credit markets show signs of improvement.

A few key indicators that should signify the beginning of a turnaround of this economic crisis are stabilization in housing prices and the gradual impact of policy measures designed to limit deterioration in the broader economy. The housing cycle is likely nearing a bottom as prices firm and foreclosure auctions slow in many regions. Mortgage rates have fallen more than 50 basis points since the government-sponsored enterprises were nationalized, and the government began buying

DANA FOWLER CHARETTE (OPPOSITE)

mortgage-backed securities.

Further policy measures to ease the credit crisis could include additional liquidity injections, reduction in the Fed fund rate and fiscal stimulus to help beleaguered consumers. The government will continue to promote consolidation, capital injection and ownership change in the banking sector.

Additionally, financial markets should eventually rebound as the recession becomes more widely recognized and recovery in the business cycle begins being discounted.

Understanding the important daily events can help alleviate anxiety caused by dire news headlines. As always, investors should maintain frequent and open dialogue with their advisors and keep their long-term objectives in mind.

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Current events have called into question everything from safety of our bank deposits to our future lives.

. Now that we are in this mess, what ways do we have to deal with the crisis and how can we benefit from it?

First, we must keep perspective. Second, we must remind ourselves of our original investment plan and thesis and see if it needs modification. Third, ask what elements of our plan (existing or revised) do we need to enact to position ourselves better now? In other words, how can we protect ourselves now and how can we benefit from the current environment?

Keeping Perspective

The world is not ending. It is adjusting and we will adjust and adapt with it. While in some respects this is a situation that none of us have seen firsthand, it will continue to have things in common with other downturns.

Assuming that you are not a professional trader nor in a rather dire situation, now is the time to remember what things are most important. As ugly as this is, it will end and will present us with opportunity. The trick is not to panic and not to behave in a way that can damage your long term goals.

What was your original plan?

In establishing your general investment plan, remember what you are attempting to do. Is it to provide income for some future date (such as retirement)? Is it a specific goal of making a purchase? Whatever, first go back to your original reason for not spending it all yesterday.

We all become too complacent when the world moves ahead for long stretches of time. If that complacence has let you become too out of balance, your original plan needs modification.

What should we change?

Is your risk profile in line with your investment plan? Have you taken too many risks in investing? How can you change what you are doing

M. David Sherrill

to get through this without throwing in the towel?

What has happened and how will this affect the outcome of your plan? Let's say your retirement plan has been cut by 25%. Figure out how your retirement will be affected in both income and time. What new assumptions need to be made?

How can we take advantage of the current situation?

Equities. Timing a bottom in equity prices has proven to be folly. But given the recent destruction of wealth, there are many companies on sale and some judicial shopping appears in order. Look for investments that carry solid financials and solid businesses that have been discarded with everything else. A company that makes products we all need is a classic example.

There currently are several opportunities to add Fortune 500 companies to your holdings that are selling at historically low valuations. By picking carefully, one can own some of the world's great franchises at perhaps once in a generation levels.

Debt. Some high grade corporate bonds are providing astounding yields in relatively short maturities. One must exercise great caution, but for those willing to take some risk and do some research there may be great rewards. These "dislocations" may be the reasons interest in the equity market has taken a back seat for now.

Look at yields on Municipals. For the first time several municipals are offering rates above the taxable equivalent instruments. This is due to several factors, but finding a tax-exempt yield at the same rate of a taxable makes a compelling argument to look for high quality, preferably General Obligation or General Revenue bonds in the short term.

Realize tax losses. The traditional way to get around the IRS's "wash sale rule" is to add the same amount to a losing position and dump the original cost basis 31 days later (or just sell and buy back after 31 day). Each involves exposing the investor to either double the market risk or the risk of being out of the market for the requisite time. But if you own ETFs you may be able to use other ETFs to effect a switch immediately. For example, swapping ETFs with the same underlying benchmark. Likewise, if you have broad market exposure then you can use ETFs to effect an immediate tax swap. Both of these could eliminate the need for further capital or time out of the market.

Looking for Protection. The best protection is a good and flexible investment plan. If your plan has not well formulated, this is the time to focus on goals and expectations.

For those anticipating a further downturn with significant exposure to the equity markets and reaching a limit of potential losses, there are some sophisticated strategies involving short-selling oriented ETFs or option contracts that should be discussed with an advisor. These can involve several layers of risk and need the advice of a professional.

Over-all, we believe in the viability of the growth of the free market system, with needed oversight. Equities should be the best way to participate in this system as they have historically been. But individual choices and asset class selection will mean much more now and for the foreseeable future.

Melissa Cohn

MELISSA COHN
Owner and President
Manhattan Mortgage

Yes, you can get a mortgage. Lending guidelines have tightened over the past year but if you can make a down payment of at least 20% and have sufficient liquidity and income to meet banks' guidelines, attractive mortgages are available.

Today's most competitive lenders are our local portfolio lenders, i.e. banks who lend off of their own balance sheet and don't have to rely upon the non-existent secondary mortgage market. These lenders continue to offer competitively priced jumbo mortgages to all sectors of the borrowing public. Large commercial banks have essentially become conforming lenders with competitive rates only to the conforming limit which is scheduled to increase to $625,000 at the end of the year. Once the commercial credit markets open again and banks regain their ability to sell mortgages onto the secondary market, we will see big banks return to the jumbo marketplace. Unfortunately, that may still be months away.

If you are thinking of refinancing, you should think about doing it now. With values down in New York and the expectation that they will soften into 2009, you want to ensure that you will have the equity to refinance especially if you are at the end of an interest only adjustable rate. The risk of a skyrocketing monthly payment is likely and it's always better to be safe than sorry.

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Our biggest challenge right now isn't living within our means. It's meaning within our lives.

Last week, my client summed it up well, "I feel like the stock market -- plummeting, uncertain and all out of upside". His fortune is half its former self. His marriage isn't just on the rocks, it's teetering on the Cliffs of Moher. And, the only sleep he gets is thanks to two Ambien and a chaser of Makers Mark.

Both in decades of great expansiveness and in periods of distressed contraction, we tend to confuse our situations with ourselves. During the go-go days, we amass wealth and power. Then, we affix riches to our own strengths, like safety pins holding our identities together. Now that our nation is caught with its financial pants down, somehow we're the ones who feel exposed.

In Old English, fǣr (fear) referred to a disastrous event. Today, fear is what our culture calls, not the calamitous event itself, but the emotional reaction we have to it. Etymology aside, the events of today and our reactions to them must be disentangled. As Stoic philosopher, Epictetus wrote, "People are disturbed not by things but by their view of things." The ability to separate one from the other is the difference between having understandable concern, and becoming the calamity.

Americans sure have proven behavioral economists right with displays of fear and greed over the years. After feasting on the all-you-can-eat bull market buffet, we've now lost over 40% of the S&P, 159,000 jobs, access to credit, and consumer confidence, just for starters. The good news is this: Because of what we've lost, maybe we'll finally find value in a different kind of economy -- the economy of our selves.

Once you heed your money manager's advice, and get the "economy of your stuff" in order, close the ledger books. Do some accounting of your internal balance sheet. Yoga postures might have taken U.S. cities by storm, but it's not just our economic systems that failed at sun salutation. Something within us is out of whack too.

Here are some exercises to strengthen your core and re-balance you for whatever lies ahead.

1) Tell Your Story Of Strength

Great leaders craft powerful messages to communicate survival strategies during crises. Recall the Tylenol scare. Then CEO of J&J, James Burke, said, "It will take time, it will take money, and it will be very difficult; but we consider it a moral imperative, as well as good business, to restore Tylenol to its preeminent position." Make this narrative your own. Identify past challenges in your life. What characteristics helped you overcome them? Connect those strengths to your current situation. Start telling yourself, (and anyone interested in listening), the story of how you will, not only survive this setback, but restore your preeminent position.

Elise Lelon

2) Take A Psychological Sabbatical From The S--- Show

Individuate from your losses, after accepting them for what they are.

Whether it's a mantra you repeat cross legged, or something you consider while shaving in the mirror, keep this concept in your consciousness: "I am not my net worth". If the government can consider a "Bank Holiday" to recapitalize, you deserve a "Psychological Sabbatical" to grieve, to regenerate, and to remember what matters.

3) Focus On Gratitude Rather Than Gaping Holes

Shift your attention from what you've lost, to what you have. Take a "gratitude walk".On your commute to work, or on the treadmill, list all the things that you're grateful for. Don't stop walking until your thankfulness account is full.

Meaning isn't just self-help book rhetoric. It's a verb too. Fat financial returns are few and far between these days. But, in the absence of those, try "meaning" your way through life. When the safety pins come undone, you may find what's been true all along: The upside is on the inside.