



THE CRISIS IN JAPAN & U.S. STOCKS

Could this week's selloff herald a correction?

Provided by Jim & Robin Cusimano, Financial Advisors

Quote of the week: “If we all worked on the assumption that what is accepted as true were really true, there would be little hope of advance.” –*Orville Wright*

Can our stock market ride out the turmoil? When U.S. stocks plunged in 2008-2009, analysts hoped overseas markets could “decouple” from the effects of America’s downturn. Now we wonder if our stock market can maintain its YTD gains with the impact of the crisis in Japan.

The scenario Wall Street fears. The nuclear risk in northern Japan becomes a Chernobyl-like disaster, prompting a terrible plunge in global equities markets. The selloff eventually moderates, but Wall Street turns bearish for weeks or months. The Dow experiences a correction (or something close). Our portfolios take a hit, and so does consumer confidence. Our economic recovery - seemingly assured if not established - is imperiled.

Why that scenario may not happen. If risks diminish at Japan’s nuclear power plants, the effect on U.S. equities may end up being less severe. Japan’s economy is the third largest in the world, but that economy is export-driven. For the record - according to data from IHS Global Insight - Japan bought just 4.7% of our total exports last year with those exports representing 0.4% of our GDP.¹

The Miyagi and Fukushima Prefectures (i.e., the areas including Sendai and the Fukushima nuclear power plant) account for about 6% of Japan’s GDP. Many economists see the nation’s 2011 GDP falling by roughly half a percentage point, assuming the radiation threat to Japan’s population moderates. Even if Japan’s GDP drops to zero this year, the impact on global growth would be small: an economist at Bank of America Merrill Lynch told the *Wall Street Journal* that global GDP would likely fall only about 0.1% as a consequence.^{1,2}

It does not seem as if global demand will be greatly impacted by this crisis. What about supply? At present, roughly half of the “Japanese” autos we buy are manufactured in the U.S. or Canada. However, these plants get many of their parts from a variety of suppliers within Japan. Toyota may end up being the hardest-hit automaker: a spokesperson says it is losing about \$72 million per day from the crisis.³

An economic slowdown in Japan could actually promote growth in other export-driven Asian economies, and it could also influence the world’s central banks and make them think twice about raising benchmark interest rates.

What happened worldwide Tuesday? The news out of the gate on Tuesday, March 15 was not good: the Dow dropped 297 points at the open, recovering to a loss of 137.74 for the day. The Dow and S&P 500 respectively closed at 11,855.42 and 1281.87; those were both 6-week lows. Around the globe, the Hang Seng was down 2.9% and the Shanghai Composite down 1.4%; Germany's DAX dropped 3.4%. These losses pale in comparison to the Nikkei 225, which dropped 10.6% on Tuesday and 16.1% across March 14-15 for its worst two days in 24 years.^{4,5}

Keep in mind, stocks can recover. Throughout history, stocks have rebounded after crises.* The Nikkei 225 fell close to 25% after the 1995 Kobe earthquake, yet it actually gained back what it had lost and finished slightly positive on the year. The Dow plunged 684 points when U.S. markets reopened after 9/11 and lost 14.26% in a week, yet it was up 21.7% off its 2001 low by the end of the year.^{1,6,7}

No equilibrium ahead - at least not for the short term. The major U.S. economic releases of this week (producer prices, consumer prices) are not likely to capture much attention from investors. We have a state of emergency not only in Japan but also in Libya and Bahrain. During the first quarter, some Wall Street analysts talked about a pullback on concerns stocks were overvalued. We now have a pullback, but for reasons no one saw coming. Hopefully, the crisis will not escalate to a level where it could reverse the course of global stock markets.

I would welcome the opportunity to speak with you about your retirement plan. (If you don't have one, I can help you start one and if you have one, a second opinion never hurts) Please feel free to contact me at by calling 406-234-3194, or send an e-mail to me. I can help you look carefully at your unique financial situation and assist you in determining a plan of action aimed at reaching your retirement goals. I look forward to speaking with you.

Riddle of the week: How many times can you subtract the number 4 from 40?

Last week's riddle: When you take away the whole from this, you still have some left over. What is it?

Last week's riddle answer: Wholesome.

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* Past Performance does not guarantee future results.

Citations.

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- 3 - msnbc.msn.com/id/42087174/ns/business-autos/ [3/15/11]
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- 5 - cnbc.com/id/42096046 [3/15/11]
- 6 - time.com/time/specials/packages/article/0,28804,1845523_1845619_1845553,00.html [3/15/11]
- 7 - the-privateer.com/chart/dow-long.html [2/28/11]

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