Coping with the market during a rough week for stocks.

As expected, a plunge. World stock markets swooned on August 8 in reaction to Standard & Poor's downgrade of U.S. long-term debt. On Wall Street, the DJIA fell 634.76, the S&P 500 79.92 and the NASDAQ 174.42. It was the toughest day on Wall Street since December 1, 2008, when the National Bureau of Economic Research announced America had lapsed into a recession.1,2

Investors endured a shock like this last year. In spring 2010, the S&P 500 pulled back 16% from a peak. At the close on August 8, the index was down 16.8% from its spring 2011 high.3

In 2010, the market healed within a few months. What happened after the 2010 correction? We had a sustained rally from September to New Year's Eve. The DJIA finished 2010 up 11.0%, the S&P 500 up 12.8% and the NASDAQ up 16.9%.4

When will we see capitulation? Yes, when will this mood lift? When will investors see merit in buying? Several factors might encourage a relief rally or something greater.

- The European Central Bank plans to buy up debt from Italy and Spain.

- The Federal Reserve could decide to buy up 10-year Treasury bonds and other long-term notes, echoing a move it made during the early 1960s. Economists and bond market analysts are beginning to think we could see this kind of QE3.

- Amid the heavy volume, bargain hunters will inevitably start shopping. As Suze Orman told CNBC August 8, "This is a gift from the stock-market heavens ... in 2008 we had far grander problems than we do today. But by March of 2009, the stock market was rising again. What makes you think that won't happen again?" In this correction, dollar-cost averaging could potentially snag great values.

- Some positive signals can be found in the turmoil: falling oil prices imply lower retail gasoline prices for consumers, the manufacturing and service sectors are still growing, interest rates are quite low and corporate profits have nicely improved. As to the chance of a double-dip recession, the U.S. economy is projected to grow 2-3% in 2012, which is about double the growth forecasts for the European Union, Great Britain or Japan.

- Nobody's running away from Treasuries. In fact, Treasury yields sank 0.18% August 8, making it cheaper for the U.S. to finance its debt.5,6,7,8

How might the downgrade of Fannie & Freddie affect the housing market? It might impact consumer confidence more than anything else. S&P's August 8 downgrade of Fannie Mae and Freddie Mac to AA+ from AAA didn't immediately shake up the mortgage market, as 10-year Treasury yields were down to 2.40% Monday.7,8

Moody's affirms America's AAA rating. "Despite the outlook for some further deterioration in the government's debt metrics over the coming few years, we believe that the U.S. continues to exhibit the characteristics compatible with an Aaa rating," Moody's Investors Service senior credit officer Steven Hess wrote in an August 8 note. Moody's also noted America's longstanding track record of economic growth as a big reason for confidence. Fitch Ratings also refrained from a U.S. credit downgrade, and both Moody's and Fitch stated that the possibility of sovereign default was remote.9,10

Relatively speaking, stocks still look cheap next to bonds & cash. As the dust settles from these big market drops, Wall Street will have to weigh its collective direction. On the one hand, you have rampant anxiety; on the other hand, you have attractive valuations. Patience may prove to be a virtue as the saga plays out and we eventually return to market fundamentals.

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