



## *Market Insights*

*Winter 2009*

When the calendar turns over to a new year, we often find ourselves making pledges; whether it is getting into shape, spending more time with our families or quitting all those things that aren't good for us. Aware of this seasonal desire for renewal and reinvention, particularly after a year of such momentous market volatility, we as investors must remind ourselves that the search for an investment quick fix can leave us vulnerable to overreaction. So in the spirit of a New Year's resolution, we will address several time tested portfolio strategies for each investor to consider as we move forward into 2009.

### **Invest for the Long-Term**

History shows that the market goes up and the market goes down. While there may be short-term losses, historically the market tends to rebound and reward long-term investing by moving even higher. If you stay fully invested, you may benefit from rebounds. Long-term investors realize the market's resiliency and the benefits of staying the course. History has shown us that the markets are efficient and will weather short-term declines to eventually reach for new highs. Bear markets and corrections are normal occurrences, happening about once every two years since 1945. Wise investors know that bear markets and corrections may be great buying opportunities. By adding to investments after the market drops, you can take advantage of lower stock prices.

### **Market Timing Doesn't Work**

No one knows when market gains will occur and missing just a few of the market's best days can lower your return substantially. To take advantage of market gains, stay fully invested and don't try to time market moves. Experience has shown that the time spent waiting for the perfect opportunity to jump in and out may have dampening effects on the overall return of an investment. The in-and-out approach to investing doesn't compare to the performance of staying focused and staying invested.

## **Keep Emotions in Check**

*“The intelligent investor is likely to need considerable will power to keep from following the crowd.”*  
– Benjamin Graham

Keeping investor sentiment in mind, you can see that historically, market volatility has caused investors to make emotional decisions. People tend to buy high and sell low based on emotions rather than the proven tactic of staying the course. Consumer confidence can be viewed as a contrarian indicator. When consumer confidence is low, it may be a good time to buy — when confidence is high, it may be the right time to sell.

Looking at the past decade, the largest equity inflows occurred in the first quarter of 2000 at the same time the market peaked. Moreover, the largest equity outflows occurred in the third quarter of 2002, which coincided with a market trough for the S&P 500. During the past 40 years, five cyclical lows in consumer confidence have been followed by an average return of 27.22% over the following 12-month period.

## **Don't Put All Your Eggs in One Basket**

Diversification is a fundamental investment concept that most investors have no trouble understanding. If, for example, an investor owns equal dollar amounts of only two mutual funds, and one suffers a 50% loss, his or her portfolio has gone down in value by 25%. But if the investor owns ten mutual funds, and one drops by 50%, his or her portfolio has suffered only a 5% loss.

With a diversified portfolio, risk is reduced because different investments rise and fall independently of each other. On a broader scale, combinations of different investment assets may well cancel out each other's fluctuations in price, reducing the overall risk within the portfolio. Managing volatility with diversification is particularly crucial during a market downturn. After experiencing a loss, a portfolio must earn an even higher return in future periods to fully recover to its previous level. Diversification can lower volatility and therefore result in a higher compound return and greater terminal wealth.

## **Look At Your Quarterly Statement with Perspective**

Ultimately, a loss is a loss. It doesn't matter whether a 20% quarterly loss took place slowly over the course of three months, or if it all occurred within a few days, the end result is the same. But, it's also important to look beyond the number and see why it occurred. If you let a few bad days force a market timing decision, you could miss out on recovering some of those losses by doing nothing. You could also miss out on a lot of buying opportunities if you're investing on a regular basis through a systematic investing plan such as a 401(k).

This just goes to show you how fast the markets can move, and for most people, by the time you get around to making an investment change, the action is over and you're late. Without a crystal ball, the best you can do is hope that you're right. That being said, could we see another year of sharp losses? It's certainly possible. At the same time, 2009 started out up 3% in just one day. So before you open up that statement and get sick to your stomach, you should look at the big picture. Invest smart. Create a diversified portfolio that you're comfortable with and invest regularly in all market conditions. If you get worked up about what a few bad days in the market can do to your returns and base your investment decisions on that, you'll drive yourself crazy, and probably find yourself realizing worse results over the long haul.