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Why stay invested?

Since the stock market began, there have always been periods of volatility and reasons why not invest. Recession fears, corporate scandals, war issues, housing and lending crisis and any plethora of other major economic obstacles can make it very difficult for investors simply wish to remain confident and focused on their long term goals. Even so, it is still very important to stay invested and review your investment at least on a systematic basis.

What kind of returns should I expect from stocks?

The greatest question of all time; *"How much can I make playing the stock market and is it worth it?"* Since 1926, the long-term average return on the stock market has been 9.8%, so it is not very surprising that many people expect that kind of return every single year. However, many investors fail to realize the stock market is a market of extremes and volatility that is dominated by years of high returns ranging from 12%-20% in any given calendar year. Hence we become accustomed to wanting and seeing those types of returns. What should we really be expecting throughout the years in each sector if it is not the 18% return that we love so much?

What makes all this interesting is that the 8-12% annualized return have only occurred 5 times in the past 84 years since 1962. Over that time, there were 38 instances when the calendar year totaled return for stocks exceeded 18%, and it has been negative 24 times. The good news is that for every two years that the market has lost ground due to major economic crisis and corrections, there have been 3 years with returns more than 18%!

Long Term Returns of Asset Classes 1926-2009

Small Company Stocks	11.86%
Large Company Stocks	9.81%
High Quality Corporate Bonds	5.85%
Intermediate Government Bonds	5.33%
Inflation, Measured by CPI	3.01%

What is a Bear Market and how often does it come?

A bear market is a prolonged period when the stocks market declines by 20% or more. If the period of falling stock prices is short and immediately follows a period of rising stock prices, it is instead called a correction. Bear markets usually occur when the economy is in a recession and unemployment is high or when inflation is rising quickly.

A key fact about bear markets is that the bear market lasts for at least 1.5 years with the market dropping by 35% over that time period. The longest bear market lasted for 3 years. From the date the market is recognized as being in a bear market, it takes an average of 8.4 months before the market hits a bottom. It has even happened in extremes too, 1.5 months on four different occasions and 1.5 years on two occasions for the market to hit bottom after the announcement of being in a bear market.

With all these uncertainties, why should I still invest in stocks?

That is a wonderful question, we all ask that from time to time, especially when we are scared or that we are nearing retirement and cannot handle the risk anymore. One simple answer has to do with how optimistic you feel about the future along with the opportunities for growth and world development. More importantly, consider what would have happened if investors in past bear markets bailed out after a significant decline and moved their money to a "safe" interest-bearing security.

Example:
1970, was a very gloomy period in our nation's history, and some people lost a lot of money. You could not really blame investors for throwing their hands up and screaming, "Get me out of this mess!" We will assume that the investor got out of the market and has $57,357 left to invest. While getting out of the stock market may mean avoiding more down days, it also meant a loss of opportunities on its up days. The investors who stayed invested even after a long, slow market decline would have done much better in the long run. If the investors stayed invested with an annualized return of 5%, in 10 years, the investor would have made $93,429, but if the same investor used the same money and invested it in the market, that money would have grown to $245,082!

First, remind yourself of the reason you invested in stocks in the first place: because stocks have been the best performers over time. For many people, stocks are part of a long-term investing plan to help them achieve their financial goals. But with everything going on in the world, is now a good time to invest? YES, just like the example above, staying invested or even going back into the market now is a great time. We have hit some of our lowest numbers on the S&P 500 and many companies are bouncing back and the opportunities to invest and rebuild your wealth are still out there. Everyday that the money sits in a saving account or a low interest bearing position, money is essentially lost each day. We have always said if it is not gaining at least 3%, inflation alone is eating up your hard earned money.

Being Optimistic About the Future

When the market turns negative, it is difficult to remain optimistic, especially if returns have been negative for several years in a row. But it is essential to remember your investment time horizon, even though the 10 years return for stocks is now negative. Investors in their 20s, 30s, 40s, 50s, and even mid 60s, who have at least 20 years of investment time horizon should look ahead of the potential returns that they are able to make up in the next 20 years and beyond.

The other reason to be optimistic and stay invested is that although bear markets have traditionally been short lived and very emotional, bull markets typically start with a huge upswing and lasts for about 5 years! This means 5 years of capturing gains and making up the losses that may have occurred in the year or two in the past. A fact about bull markets is that it lasts for about 5 years, with the average cumulative returns of 177% over that time frame. A bull market often experiences a longer run than bear markets. The shortest bull market lasts just a little over 2 years while the longest lasted for over 12 years. Imagine growing your money at a 12 year bull market!

What should I do now?

We strongly encourage you to consider dollar-cost averaging. It is very important to consider what and how you invest your funds now because what appears to be the smart choice sometimes is not so. Sometime we may not know where the market actually stands and reinvesting all your funds all at once may actually cause a little more immediate harm because if the market continues to go down slightly, it may feel like more loss. This will help put emotions aside and invest due to long term goal focus. When volatility hits, many investors consider selling their stocks. However, moving your investments from stocks to all cash could be a losing bet. According to a study by Lipper in 2009 on the S&P 500 Index, since 1976, cash has only outperformed stocks and bonds, on a rolling one-year period, 12% of the time. So what is the right investment strategy?

A well diversified portfolio can actually be your best defense against market volatility. It is important not to be overly concentrated in on sector or product of investment. In just the past 10 years, five different sectors have led in at least one calendar year. Asset allocation and diversification can help smooth the ride over the long term.

Get back on track, and talk to one of our financial professionals. We are here to answer any other questions you may have about the

market, your portfolio strategies, and next steps. It is about the right strategy for the right time. Do you have the right strategy in place for 2011?

Sincerely,

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