

## **Market Turmoil: The Value of Staying the Course**

For the five years as of December 31, 2007, the S&P 500 experienced above average returns. However, starting in June of last year, the markets have witnessed losses in eight out of the last 13 months and an increase in volatility due to a variety of factors including the sub-prime mortgage crisis, declining home prices, rising commodity prices and many more. These are real issues that impact everyone in some form or capacity.

During the aforementioned period of out-performance, the S&P 500 earned an average annual return of 12.8%, or about 2% more than the long-term average. But through June of this year, returns have been battered by financial stocks (-31%) and telecommunication services (-18.9%) as well as, industrials, health care, and information technology dropping between 13-15%.

Normally, the fixed income market tends to offer good diversification in times of stock market downturns. However, the Lehman Brothers Aggregate Bond Index has only returned around 1.0% in 2008. Treasuries, considered a safe haven during high volatility or tight credit conditions, have performed better and are up roughly 10.0% for the 12 months ended June 30, 2008.

Since 1950, the S&P 500 has lost at least 20% from the peak to the bottom of the market eight times; three in the 1970s and two each in the 1980s and 1990s. The most recent episode occurred when the market declined 49% from the peak on March 24, 2000 to the bottom on October 9, 2002. The S&P 500 had several false rallies before it finally found that bottom and started to recover. From the lowest point on that day in October to the same day a year later, the S&P 500 Index rose by nearly 34% (from 776.76 to 1038.73). Notably, investors on the sidelines in those first few months of recovery missed a 7% jump in the market, which equates to missing more than half the returns for an average year.

Most recently, the S&P 500 peaked on October 9, 2007 at 1,565.16 and reached a new low as of this writing of 1,239.49 on July 11, 2008, a drop of about 20% (excluding dividend reinvestment). Based on studies performed by Raymond James AMS Institutional Research, when there has been a major correction in the market (defined as greater than a 10% loss in the S&P 500 from top to bottom), the average loss has been 21%. In the 12 months that have followed that bottom, the average recovery has been 35%; 51% in the first 24 months.

As the table below illustrates, missing the best days in the markets can have a major impact on an investor's long-term portfolio performance.

## The Penalty for Missing the Market

S&P 500 Index: 12/31/1987 through 12/31/2007		
Investment Pattern Over a 20 Year Period	Average Annual Returns	Growth of \$10,000
Fully Invested	11.82%	\$ 93,339
Miss 10 best days	9.17%	\$ 57,778
Miss 20 best days	7.10%	\$ 39,398
Miss 30 best days	5.26%	\$ 27,886

Source: Interactive Data Systems (IDS). Based on the Daily Total Return of the Standard and Poor's 500 Index, including dividend reinvestment.

In this 20-year period, missing the 10 best of the 5,113 total trading days would have been detrimental. If an investor cannot time the market, why try?

Statistically, predicting the market's peak is extremely difficult. Likewise, predicting the bottom is just as difficult. The chances of predicting both are exponentially more improbable.

So, what should be done? For starters, it is in times like these that investors should ensure they are appropriately diversified with a strategy that makes long-term sense for their needs. Additionally, investors should stick with their plan. The markets have always seen volatility on the up side and on the down side. While nothing is guaranteed, history has shown that those investors who stick with their well-diversified investment plans often end up with better returns than those investors who try to time the market.

As the old saying goes, it is not "timing the market," but "time in the market." If you have general market questions or specific queries about your portfolio, please don't hesitate to call me.

The S&P 500 is based on the average performance of 500 widely held common stocks. The S&P 500 is a broad-based measurement of changes in stock market conditions.

The Lehman Brothers Aggregate Bond Index includes fixed rate debt issues rated investment grade or higher by Moody's Investors Service, Standard and Poor's, or Fitch Investor's Service, in that order. All issues must have at least 1 year left to maturity and have an outstanding par value of at least \$100 million. The Aggregate Index is comprised of the Government/Corporate, the Mortgage-Backed Securities, and the Asset-Backed Securities indices.

\* Past results are not indicative of future performance. No strategy is guaranteed to be successful. Investing involves risk, and you may incur a profit or a loss.

\*\* The Index is unmanaged and one cannot invest directly in an index.