



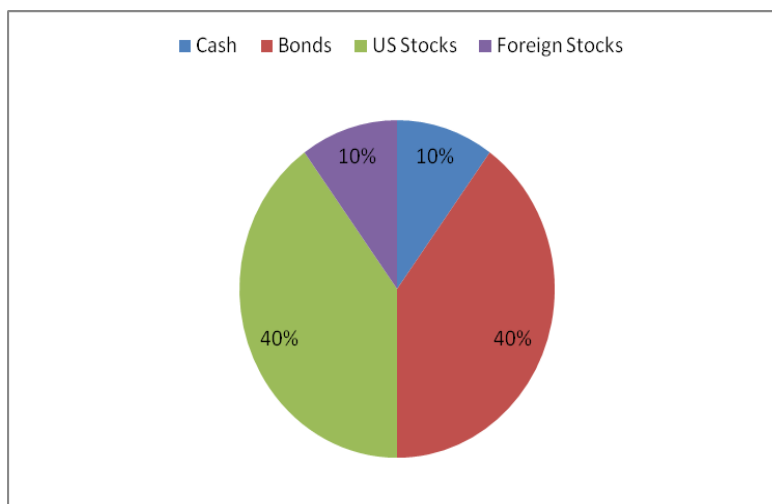
The Market is Falling, But the Sky Isn't

The economy, the stock market, and the seasons have much in common. They are all cyclical: there are periods of economic expansion, high stock valuations, and warm weather; likewise there are periods of contraction, low stock valuations, and cold weather. Of course, while the range of expected temperatures and duration of the seasons is fairly predictable, the range and duration of an economic cycle, or the price movements in the stock market, are not.

After hitting record highs last October, the Dow Jones Industrial Average and the S&P 500 have both gone through an official correction (a loss in value of 10% or more). Most financial pundits agree this correction is being driven by three main factors: the continued unraveling of the subprime lending debacle (causing home prices to decline and financial stocks to dive), high energy prices (taking dollars away from consumers and increasing inflationary concerns), and a fear that the United States has entered or may be entering a recession.

When markets are volatile, and the value of your portfolio is jumping around from day to day, it helps to step back and take a historical perspective. You're going to live through lots of up and down markets if you invest in the stock market over a long period of time.

For that historical perspective, let's look at what it would have been like to hold a moderate portfolio over the last 35 years. This is a period that had its share of tough economic events, including six recessions. Say you began investing in the financial markets in 1972, and positioned yourself in a balanced and diversified portfolio using market indexes:



Here's what we know, looking backwards:

- 32% of the time, your portfolio values would have been falling. Stop and think about that. Roughly 1/3 of the time, you would open your monthly statement and see a drop in value from the prior month.
- In total, there were 69 periods where the portfolio values were dropping for one month or longer.

How long those periods were looked like this:

Length of Fall	Total Falls
1 month	47
2 months	12
3 months	5
4-6 months	3
13-24 months	1
More than 2 years	1

Source: FinaMetrica

And how severe those falls were looked like this:

Depth of Fall	Total Falls
Less than a 10% drop in your portfolio's value	66
Drop of 10% to 19% in value	3

Source: FinaMetrica

The important things to note: there were frequent declines (32% of the time), many were for multiple months, and while most were less than 10%, a few were more severe. What we know now is that all these declines were followed by periods of recovery, and the holder of this moderate portfolio garnered a nice return over the last 35 years.

The point of all this is that we've been here before and we shouldn't get too excited about normal market corrections. As advisers, we encourage our clients not to worry about the unknowable, but to stay focused on what is knowable and actionable. By maintaining a disciplined strategy of understanding your risk tolerance, required rate of return, and time horizon, we can devise an asset allocation model that will serve you well over time and maximize your chances for long-term success.

-- Joe Hebert. Posted 02/15/08.