CHART OF THE MONTH

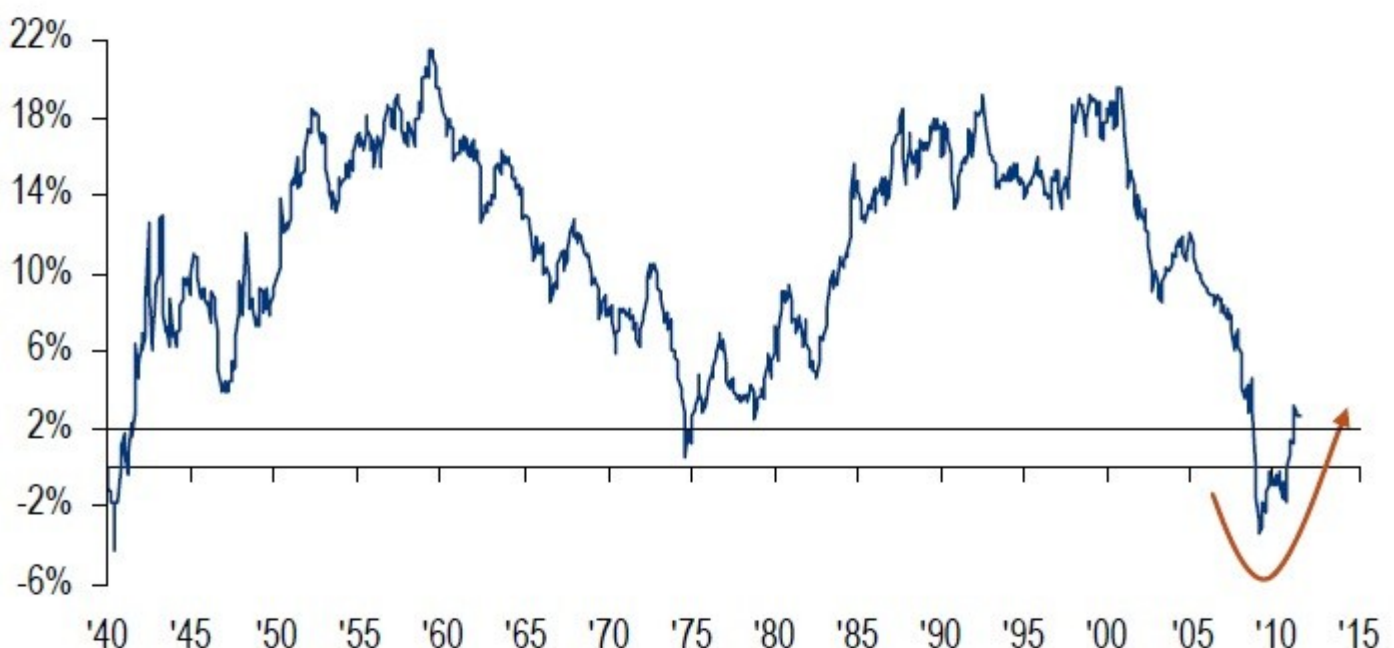
NOVEMBER 2011

We enclosed a graph similar to the one at the bottom of the page with our quarterly client letters and statements on April 3, 2009. The economy was in recession and the stock market indexes had declined over 40% from their highs in October 2007. The news flow and sentiment were both negative, causing many investors to give up hope and sell at or near the bottom of the market. We resisted the temptation, forewarning clients that “it would not be atypical if stock investments provided outsized returns over the next decade” after experiencing one of the two worst 10-year performances ever (essentially equal to the decade following the Stock Market Crash of 1929).

While the equity market has had its share of ups and downs over the past 32 months, it is important to note that the Dow Jones Industrial Average (which was trading below 8,000 back then), has gained about 3,600 points, or approximately 45%. Including dividends, the DJIA has provided a total return of more than 50% since we first published the aforementioned graph.

Given the recent volatility owing to the sluggish domestic economy, the inability of lawmakers to curtail government spending and deficits, and the ongoing crisis in Europe, we thought it would be helpful to remind clients that the stock market has generated its best long-term results following periods of sustained weakness when the outlook was at least as grim as it appears today. That’s right, on the heels of the Great Depression in the 1930s and the economic stagnation in the 1970s, the market, as shown below, produced at least two decades in which rolling 10-year annualized returns mostly ranged from 10% to 20%.

The cyclical nature of the economy and the financial markets tends to create an overabundance of optimism and pessimism with the former generally occurring at the peaks and the latter at the troughs. Due to the fact that stock prices are dictated by investor sentiment in the short run, it makes sense that the greatest opportunities present themselves at the least likely of times. Mindful of the inherent risks of investing, we believe the post-credit bubble has a greater chance of surprising on the upside than the downside.



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