## CHART OF THE MONTH

## AUGUST 2014

The Standard & Poor's 500, which closed above 2,000 yesterday for the first time ever, has now tripled from its low of 666 in March 2009.

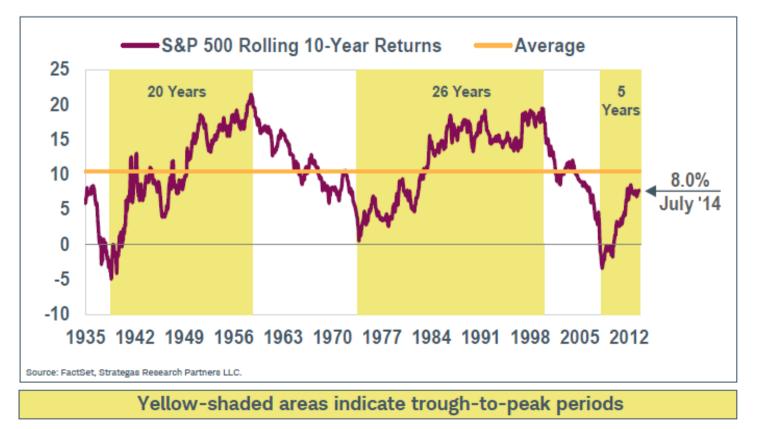
Has the stock market moved up too far, too fast? Is it overdue for another major correction? Our Chart of the Month is designed to tackle those questions in the context of an historical perspective.

While the market has treated investors well over the past 5 1/2 years, it is important to understand that the prior decade — which included two recessions and two bear markets — was one of the worst on record. In fact, as shown in the graph below, the rolling 10-year returns at the bottom of the most recent downturn were roughly in-line with those of the Great Depression.

Of note, the S&P 500 produced terrific results in the subsequent decades after the rolling 10-year returns approached or pierced 0%. These returns turned negative in November 2008 (-0.95%), bottomed in February 2009 (-3.45%), and stayed in the minus column through October 2010 (-0.03%). The rolling 10-year return has been working its way steadily higher since then, benefiting by lopping off the negative yearly results in 2000, 2001, and 2002 as well as adding the positive performance from the spring of 2009 through the summer of 2014.

If the past is prologue, we would expect the rolling 10-year return (currently at 8.0%) to reach the long-term average of 10% about a quarter to a third of the way through the uptrend. Moreover, it would not surprise us if the rolling 10-year return once again nears or exceeds 20% before this secular bull market runs its course. However, we recognize that there will be pullbacks and corrections along the way, just as there were in the prior two trough-to-peak periods.

We mailed a similar graph to clients along with our quarterly statements on April 3, 2009, making the case within a few weeks of the absolute low that the market was poised to generate "outsized returns over the next decade." We see no reason to change our position, which was in the minority back then, at this time. Our initial forecast was based largely on a reversion to the mean, but it is now backed by solid economic fundamentals and reasonable stock valuations as well.





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