CHART OF THE MONTH

JANUARY 2014

The stock market, as measured by the Standard & Poor's 500, slumped 2.6% last week, the biggest weekly percentage decline since June 2012. The vast majority of the drop occurred on Friday when the S&P tumbled 2.1% in conjunction with a global sell-off owing to concerns about emerging markets.

As of today's close, the index is down 3.7% from its all-time of 1,849 on December 31, 2013. Meanwhile, the S&P has fallen below its 50-day moving average for the fifth time during the past year. The index bottomed shortly thereafter in each of the four previous times, including on that very day in April and within a week or so in June, August, and October. As such, if the recent past is prologue, the market is probably much nearer to its interim lows than not.

Could the market experience a 10% or greater correction? Of course. Stocks have not undergone a correction of that magnitude since the middle of 2011. While some pundits argue that the market is overdue for such a pullback, we believe it is difficult to make money by trading the news and sentiment of the moment. Rather than jumping in and out of stocks, we believe taking a longer-term approach is a much more prudent strategy.

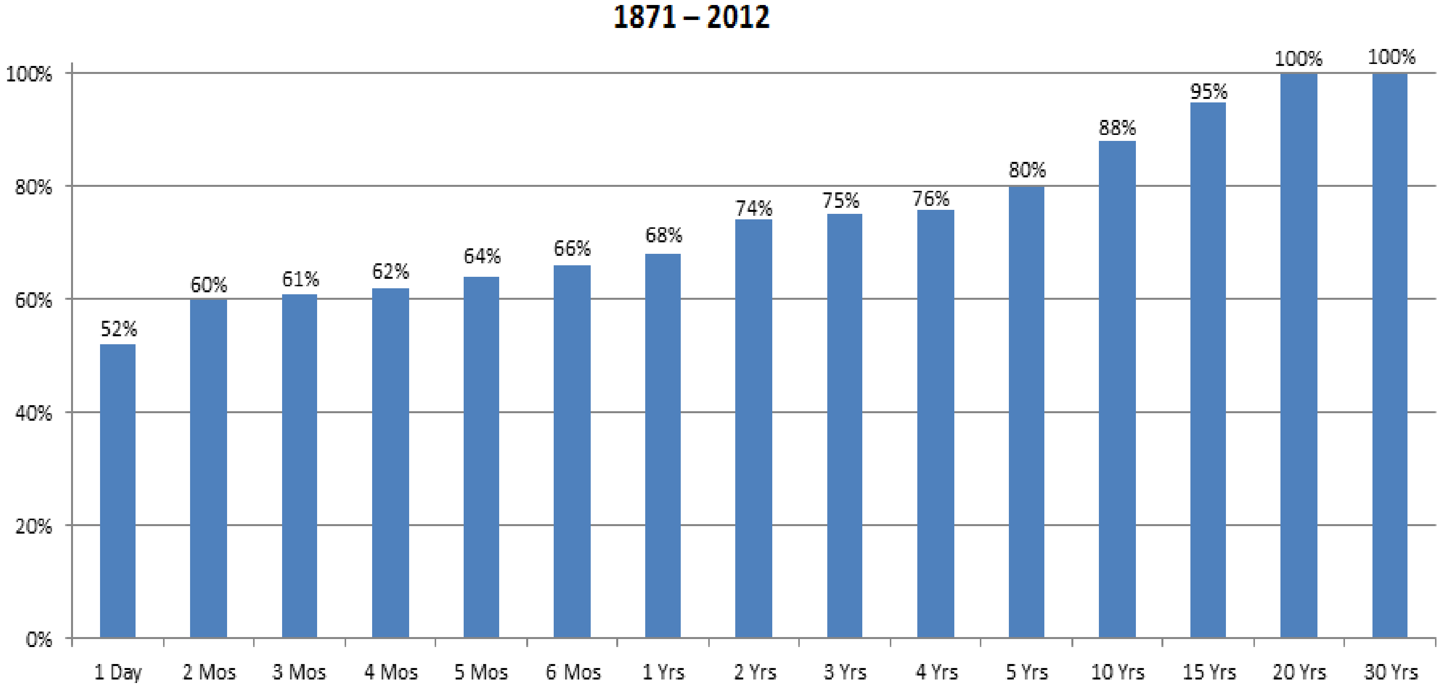
As shown in the bar chart below, the longer the time period, the more likely one is to generate a positive return by investing in stocks. Although the odds of the market going up on any particular day are close to a coin toss, the probabilities improve to more than two-thirds over the course of one year, 80% over five years, and 100% over every 20-year period since 1871.

If the day-to-day swings are roughly a 50-50 proposition, traders should recognize that they only have a one-in-four chance of making money when buying and selling. You can test the math by flipping a coin twice. The four outcomes are heads/heads, heads/tails, tails/heads, and tails/tails. A large sample size will be right half the time on each flip of the coin but just 25% if tossed twice. When it comes to timing stocks, a 50% success rate is nothing more than a loser's game due to the transaction costs and taxes that take a slice out of one's earnings.

Be strong. Stay long.

% of Periods That Earned a Positive Return

1871 – 2012



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