

Weekly Commentary

April 19, 2010

The Markets

Lloyd Blankfein, the chief executive of Goldman Sachs, described himself as "doing God's work," in a profile last year in London's *Sunday Times*. Last Friday, the SEC charged Blankfein's firm with defrauding investors in connection with securities linked to subprime mortgages. Investor reaction was swift as Goldman's stock dropped more than 12% on the day and the Dow Jones Industrial Average lost 125 points, according to Associated Press.

A volcano in southern Iceland erupted last week and sent a massive ash plume across Europe, which caused the cancellation of tens of thousands of flights over a several day period and created unexpected hardship for millions of travelers, according to CNN. This floating ash plume is costing the airline industry at least \$200 million a day, according to the International Air Transport Association.

So, what's the connection between the Goldman Sachs fraud case and the Icelandic ash plume? Nothing! Yet, in the world of investing, seemingly random and unpredictable events like these can materially affect financial markets and specific stocks.

The fact that random and unpredictable events can trigger financial disturbances is one reason why it is important to keep an eye on capital preservation and not just focus on capital appreciation.

| Data as of 4/16/10 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|--------|-------|--------|--------|--------|---------|
| Standard & Poor's 500 (Domestic Stocks) | -0.2% | 6.9% | 37.1% | -6.7% | 0.8% | -1.6% |
| DJ Global ex US (Foreign Stocks) | -0.2 | 3.6 | 47.2 | -7.3 | 4.9 | 1.9 |
| 10-year Treasury Note (Yield Only) | 3.8 | N/A | 2.8 | 4.7 | 4.3 | 6.0 |
| Gold (per ounce) | -0.1 | 4.3 | 30.8 | 18.8 | 22.0 | 15.1 |
| DJ-UBS Commodity Index | 0.3 | -2.9 | 19.3 | -7.8 | -2.3 | 3.5 |
| DJ Equity All REIT TR Index | -3.3 | 11.0 | 65.2 | -10.4 | 3.9 | 11.4 |

Notes: S&P 500, DJ Global ex US, Gold, DJ-UBS Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable or not available.

WHICH IS MORE IMPORTANT--making sure you participate in the market's 10-best performing days or avoiding the market's 10-worst performing days over any given period? Based on the 81 years between January 3, 1928 and March 31, 2009, here are some numbers to help us answer this question, according to data from Invesco Aim:

- The 10-best performing days in the S&P 500 index yielded a daily average return of 11.7%. The 10-worst performing days yielded a daily average return of -10.8%.
- If you missed the 10-best performing days, \$1 would have grown to just \$14.99.
- If you missed the 10-worst performing days, \$1 would have multiplied to \$143.47.
- If you missed the 10-best and the 10-worst days, \$1 would have grown to \$47.59.
- On a buy and hold basis, one dollar invested at the beginning of this 81-year period would have grown to \$45.18 by March 31, 2009.

- All 10 of the worst performing days occurred during bear markets as did seven of the 10 best-performing days.

Here are a few thoughts on interpreting this data:

- First, missing the 10-best performing days reduced your growth over the entire 81-year period by about two-thirds compared to staying fully invested during that period. This makes a case for staying fully invested so you don't miss these big up days.
- Second, missing the 10-worst performing days more than tripled your results compared to staying fully invested. This suggests that historically, if you had magical powers to foresee the future and were *out* of the market on the 10-worst performing days, your return would have more than tripled the return of the fully invested buy-and-hold strategy. This makes a case for market timing.
- Third, missing both the 10-best and 10-worst days in the market had very little impact on your results compared to just staying fully invested during the entire period.

But, let's be realistic. The above numbers are based on historical data, you cannot invest directly in an index, and few people have an 81-year investment horizon. And, by the way, nobody we know has the ability to perfectly time the market and pinpoint the 10-best and 10-worst performing days *before they happen*.

This data helps support three of our core beliefs. First, the historical data shows the importance of risk management relative to return maximization. Second, we design your investment plan to meet *your* financial goals, not simply to capture or avoid the best and worst days in the market. Third, we work to build multiple legs on your investment table, rather than just a single leg composed of stock market investments. Ultimately, it's *your goals* that we are trying to achieve.

Weekly Focus – Think About It

"You only have to do a very few things right in your life so long as you don't do too many things wrong."

--Warren Buffett

Best regards,

Tony Hartman

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

- * The DJ Global ex US is an unmanaged group of non-U.S. securities designed to reflect the performance of the global equity securities that have readily available prices.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the London afternoon gold price fix as reported by the London Bullion Market Association.
- * The DJ Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
- * Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
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