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## **Don't base strategy on recent stock market performance**

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Unless your life expectancy is that of a mayfly, don't be permanently scarred with the stories of the "Lost Decade," a period where the US stock market ended in the red. If your financial goals require more than a passbook rate of return, don't abandon your long-term strategy and kick-the-stock-market-to-the-curb based on the decade's 10% decline.

First, I understand the apprehension. Behaviorists call it anchoring, a human tendency to attach, or anchor, on a reference point, even if it has no relevance to the decision at hand. It's similar to when I decline a dinner invitation to a specific 5 star restaurant because I had a bad experience.

And look where we've been. We started the decade, following the booming 80's and 90's, with a Y2K-exploding toaster crisis, then the dotcom bubble burst, '02/03 recession, 9/11, wars in Afghanistan and Iraq, a credit/real estate boom and bust, and last year's financial and economic crisis.

But who can accurately forecast this economy? As Peter Drucker said, "Anybody who tells you he understands the American economy ought to be sent to teach modern dance." We're possibly in month 10 of a market rebound (up some 60-70%) with a sluggish economic recovery. There are many positive indicators (e.g. 2-3% GDP, pent up demand, low inventories (bare shelves need restocking), unprecedented stimulus, lots of cash (\$8.4 T in US), and global economic expansion). Yet we're dampened with concerns of high unemployment (15.4 million), record US deficits and growing debt, and policies both controversial and unclear (e.g. stimulus and bailouts, health care, tax and regulation).

So, as a poor dancer, I stick to proven success with asset allocation, diversification and planning. And, I look back in history and appreciate the long-term upward trend of economies and markets (both the US and overseas). For example The Leuthold Group did a study of the 16 worst 10-year periods in the US equities market. In every subsequent 10 year period (following the worst), returns were positive and the returns averaged 10.7%. I am not forecasting a 10% return for 2010 or this new decade, I'm reflecting history.

As one decade doesn't make a lifetime, don't be discouraged. You're not alone. We're all fighting through this mess. Get together with your family, business team, and advisors, and rework your plan. Better to act than to react.