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Staying the Course is Not Just a Cliché

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I don't know of any investor who wants to lose money, whether that money is earmarked for retirement, education, or a down payment on a home. Unfortunately, the markets have not been kind to investors since the DOW hit a record high back in October of 2007. Since then, the DOW has lost about 18.50%, very close to the technical definition of a bear market (a 20% drop). If you were one of the few investors who called the top last October, sold your holdings, and went into a cash account or a money market fund, I can't fault you for that. You have managed to preserve your hard-earned capital accumulated over the long-running bull market.

But if you were not one of those investors and are still in the market, what should you do? Panic and pull out now? Wait it out? Wait longer to invest more since you believe the market is going lower? Or, thinking the market will soon start another bull run, plow more money into the market when prices are low?

If you're feeling a little stressed with all the choices, I don't blame you. But I am writing this to offer you some comfort and some things to ponder.

First, volatility is something that should be expected. Over the past year, the market has been more volatile than most; in fact, we haven't seen this much volatility since the recession of 2001.

Second, it is very difficult to time the market. For those investors who pulled out of the market in October of 2007, they were either very lucky, very smart, or a little of both. Did you know that over a 67-year period from 1926 to 1993 you have a 0.0022883557% chance of timing the market correctly all the time?*

Thirdly, recessions last, on average, about 10 months. I believe we still haven't reached the bottom yet, because there are still uncertainties such as the housing slump, the credit crunch, and possibly more bank write downs. But I believe we are close, although I am not trying to predict the absolute bottom; that would be as hard as trying to pick the absolute top.

Here are some more thoughts that require your response. Does the market begin to turn around **before or after** a recession ends? How many **months** on average, **before or after**, a recession ends does the market begin to turn around? And finally, what is the **return the first year,** on average, after the recession low: -20%, -10%, 0%, +10%, +20%, +30%, or +40%?

If you would like the answers to these questions, call me or e-mail me, and I will send you two excellent pieces of literature titled "Beyond Investment Illusions," and "The Politics of Investing."

***Sources: "Stock Market Extremes And Portfolio Performance, Nejat Seyhun, 1994.**

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