



## Market Comments

### Slowing Economy + Earnings Disappointments + Election Mayhem = Uncertainty = Falling Markets

While it is said the stock market will climb a wall of worry, it won't climb a cliff of uncertainty such as we had in November. At the end of October I believed the stage was set for a modest year-end rally. That was before the election fiasco. While I still believe it can happen, the stock markets may be unlikely to recover until the election is settled, hopefully in a reasonably dignified manner.

At the end of November most stock indices were down for the year. The chart shows both the volatility and the downward slope of the major markets in recent months. (S&P500, DJIA, EAFE and NASDAQ)

### First S&P500 Losing Year Since 1990?

It is a distinct probability. A month ago I thought there was a better than even chance that the S&P 500 would end the year in positive territory. To achieve that now, it would need to rise over 11% in December. For that to happen, a number of things would need to occur.

First, the election needs to be settled in a manner that assures investors of reasonable stability in government. Second, the Federal Reserve might signal a move to a neutral bias on interest rates. Third, there need to be fewer downward earnings surprises. Fourth, a growing negative psychology needs to be tempered.

If two or three of the four happen, I would expect the stock markets to move up in December. But would it be enough to avoid a negative year? Possible, but not probable.

On the other hand, if the negatives continue to dominate, the markets would likely stay near current values or go down some more.

### Short Term Uncertainty Should Not Derail Sound Long Term Strategies

From 1926 through 1999 large company stocks lost money in 18 calendar years. In other words, if you are going to invest in stocks, it is reasonable to expect to lose money approximately 2.5 years out of every ten. If you invested with sound principles, you accepted the risk of some losing years, and now that the market is down, you

should not rethink or regret that decision.

From 1926 through 1999 the average annualized rate of return for large stocks was 11.3%. Compare that to the 3.8% average annualized return of treasury bills. Is it worth weathering a few losing years if the long-term result is to more than double your investment return? It can't be guaranteed, but the probability is reasonably good. Large stocks beat T-bills in 86% of 10 year rolling periods since 1926.

A long-term investor takes periodic losses in stride. A long-term investor buys more when stocks are down. A long-term investor continues to add to investments regularly. A long-term investor seeks reasonable returns, knowing that the ups and downs tend to average out in the investor's favor. A long-term investor accepts a certain level of risk to have the opportunity for higher returns. A long-term investor understands there are no guarantees and does not expect that everything will go right all the time.