Deja Vu - All Over Again

One of my favorite movies is “Groundhog’s Day”, starring Bill Murray. As a TV reporter, Murray is assigned to cover the day groundhog Puxatawney Phil emerges. Will he see his shadow?

Murray reports the story, ends his day and goes to bed. The next morning, he awakes to the same music as the day before only to find himself reliving yesterday. Again and again.

You turn on the TV or radio, read the headlines or surf the net and are likely to feel like Murray; “Isn’t this just like yesterday?” The market is down (again), oil and gas are up (again), and the mortgage market took a hit (again).

On July 7, 2008, the S&P 500 Index officially declined 20% from its October 9, 2007, level. Both the Dow Jones Industrial Average and Nasdaq Composite had also fallen at least 20% from their previous highs. A downturn of 20% or more in multiple indexes is widely considered to be a “bear market”. Looking back at the S&P 500 since 1956, there have been nine previous bear markets, an average of one every five years. Declines ranged from 20% in 1990 to 48% in 1973-1974 and 49% in 2000-2002.

Of the nine previous periods, the S&P 500 Index rebounded and recorded positive performance one year later seven times. In only two instances, 1973- 1974 and 2000-2002, did negative performance extend an additional year. Bear markets are a normal occurrence and patient investors have generally been rewarded over the long term.

It is important to remember that short-term declines and corrections are a natural part of the investment process and should not affect your long-term financial plan (do you have a financial plan?). For example, in reviewing markets since 1900, we see that the Dow Jones Industrial Average routinely declines 5% or more about three times per year;

declines 10% or more about once per year; and declines up to 15% about once every two years.

Of course, you have no control over the market's ups and downs, but you will be better prepared to weather these cycles if you focus on what you CAN control.

• Stay invested. Many investors act on emotions – getting out of the market when they see it declining and getting back in when it rebounds. Maintaining a long-term perspective means spending time in the market, not timing it.

• Invest for Income. Whether a stock price is rising or falling, companies can continue to pay dividends. Certain types of mutual funds and other investments are typically designed to produce a steady flow of dividend income.

• Seek Consistency. If you use an investment manager, find one that consistently seeks to reduce volatility by using a more defensive and conservative strategy.

On Election Year History

The first six months of this election year posted the largest S&P 500 decline of any presidential election year since 1940 (Investech Research – www.investech.com).

The only other double-digit losses in the first half of a presidential election year came in 1940, at the start of WWII when Germany invaded France, and in 1932, at the depths of the Great Depression.
Those two years – 1932 and 1940 – with double-digit losses in the first half, each rebounded for double-digit gains in the second half of those years. Will 2008 follow suit?

The Bottom Line

It seems that we live in times when it's often one step forward, two steps back in the financial markets. While we can't bury our heads in the sand and ignore all the risks, we can try to ignore the noise.

Every day, Bill Murray woke up to the same music, reported the same news, and did the same things. Although the antagonists in the real world are different, we've seen this movie before and we know how it ends. The good guy will get the girl; they'll get married, have a family and live happily ever after.

The path there may be very rocky. They may break up a few times along the way, battle serious illnesses; perhaps lose their jobs, home, or cars, but in the end . . .

##

James D Hallett, Investment Advisor Representative, offering advisory services through Hallett & Associates, P.S., a Registered Investment Advisor. Registered Representative, securities offered through Cambridge Investment Research, a Broker/Dealer (Member FINRA/SiPC) Cambridge and Hallett & Associates, P.S. are not affiliated.