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# THE LONG TERM

## *In this volatile market, perspective is valuable.*

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**2011 will not be remembered as a banner year on Wall Street.** No silver bullet has emerged to take care of the European Union's debt problems, and after two strong years for U.S. equities, it appears stocks will make minimal annual gains or finish the year in the red.

If your pessimism increased this year, you aren't alone. This is a very challenging environment, even for fund managers. A recent *Wall Street Journal* piece referenced that some traders are reluctant to make a decisive move for fear of triggering a big price swing on a particular stock. Liquidity has also been reduced in this market. [7]

While this sounds gloomy, a little perspective is helpful. When it comes to stocks, it is really about the long term.

**This year hasn't been a disaster, just a struggle.** The market has seen far worse stretches than this. Looking at CNNMoney's handy 5-year chart, the S&P 500 lost 24.06% across the years of 2008-09; yet even with all the drama of 2011, the index is still +3.91% since the start of 2010.[1]

On January 14, 2000, the Dow closed at a new all-time high of 11,722.98. On October 9, 2002, it was 37.85% lower after a bear market memorable for a 77.93% decline in the NASDAQ. Yet even in the wake of the dot-com bust and 9/11, the Dow was not crippled. It rose 61% over the next four years to hit a new all-time high of 11,727 on October 3, 2006.[2]

The blue chips have risen and fallen since then, and so have small caps and tech stocks. Yet investors can still make money in bad Wall Street years; no one invests directly in an index, so the potential to beat the market remains.

**Comparatively speaking, we're holding up pretty well.** As we bid goodbye to Thanksgiving weekend, we can be thankful that our stock market is performing better than many others. At the closing bell on November 25, the DJIA was at -2.99% YTD; nearly all the world's other important stock indices were posting double-digit YTD losses.[3, 5]

**How well-diversified is your portfolio?** From 1990-2009, the S&P 500 returned an average of 8.2% annually, yet the typical investor averaged a 3% yearly return. Why? Investors chased performance. They got emotional, responded to headlines, and ignored fundamentals of diversification and patience. They bought at market peaks and bailed out at market lows, and then they waited for that rare "perfect moment" to get back into equities.[4, 6]

Instead of fleeing the market when stocks hit headwinds, the seasoned investor takes a moment to consult his or her financial professional of choice and adjusts the sails in response while still investing consistently with quality as a key criterion. That approach may help you ride through this year and next and give you a chance to outperform the emotionally-driven investor in the long term.

**Do you have concerns about your investments right now?** I'm happy to help you address them. Let's talk about where you are at right now with your portfolio and the level of progress you are making toward your financial objectives. The more you understand about the long-term behavior and potential of the market, the more you realize the need (and value) of patience and perseverance.

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**Citations.**

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