

March 10, 2010

What a Difference a Year Makes

“How the Market Got It’s Groove Back,” read one headline. Others marked the one-year anniversary of this recession’s apparent market low by wishing happy birthday to the “baby bull.” No one is celebrating with too much glee, but the upbeat mood among investors and most analysts is in dramatic contrast to the gloom evident when the markets closed on March 9, 2009. At the time, no one knew that would be the beginning of the recovery.

The market indices were relatively quiet as the anniversary approached. At the one-year mark, the Dow Jones Industrial Average (an unmanaged index of 30 widely held stocks) stood at 10,564.38, up 61.4% since its close the year before. The NASDAQ Composite (an unmanaged index of common stocks listed on the NASDAQ National Stock Market) finished at 2,340.68, up 84.5% from a year ago. The S&P 500 (an unmanaged index of 500 widely held stocks) stood at 1,140.44, which was up 68.6% compared to its close on March 9, 2009.

A year ago, it was just another Black Monday in the history of financial markets – oddly enough, March 9 last year was a Monday, just as it was a Monday when the Dow lost nearly 23% of its value on October 19, 1987. On Monday, October 28, 1929, the Dow lost 13.5% – the day was one of several losing sessions that foreshadowed the Great Depression.

Despite vast differences in the times and circumstances surrounding dramatic market days, there are common lessons to be extracted. In the past, investors who could and did stay in the markets eventually prospered – it took more than 22 years to reach previous highs in the case of the Great Depression, but just over two after the 1987 plunge. Those who succumbed to the panic all too often sold at or near the bottom, in effect, buying into their losses, then stood aside as recovery occurred. Right now, no one needs to dial up a long-term memory to understand how rapidly markets can sometimes recover and how beneficial it can be to stay invested for the long term while maintaining a diversified portfolio. This seems to be so even as the markets have far to go to recover to the highs of late 2007.

No one knows where the markets will go next, but as we push beyond the anniversary of the apparent low point, with the economy on a slow road to recovery, a generally positive outlook doesn't seem out of line. If you'd like to discuss positioning your portfolio for the future or have other concerns, please give me a call.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark G. Thompson', with a stylized flourish at the end.

Mark G. Thompson, CFP
Certified Financial Planner

Past performance is not indicative of future results. Investors cannot invest directly in an index.