Market *Alert*

Jan 2010

STANDARD & POOR'S

Bidding Farewell to a Dismal Decade?

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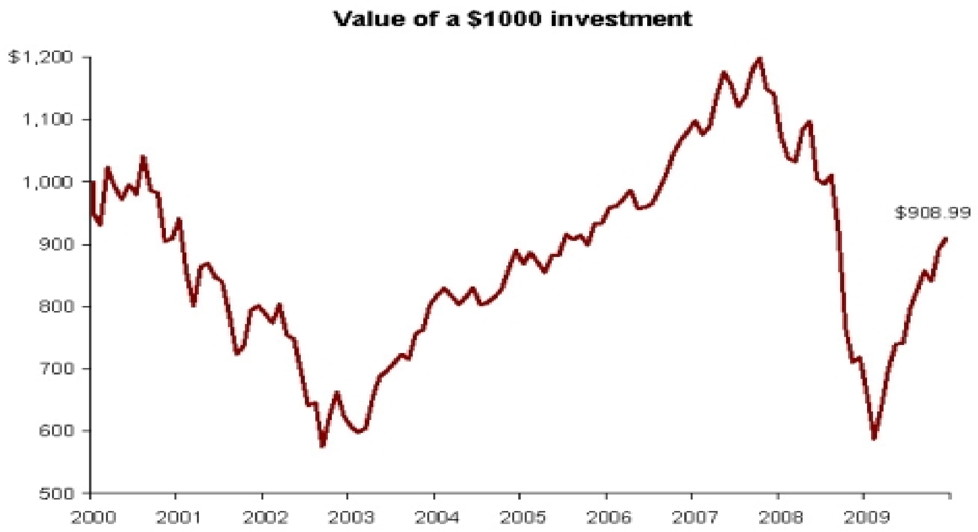
The first 10 years of the new millennium weren't pleasant ones for most investors. Will the markets rebound or are we in for more of the same over the next 10 years?

The markets rebounded in 2009 -- the S&P 500[1]was up a robust 26.45% for the year -- to take some of the sting out of the freefall that began in October 2007. But last year's rally couldn't erase what was truly a dismal decade.

The 2000s were the first 10-year span in 90 years that ended in the red. On a price-only basis, the S&P 500 posted a cumulative decline of -24.1%. When adjusted to include dividends, the fallout stands at a still disappointing -0.95%.

A Lost Decade

How bad was it? A $1,000 investment in the stock market on January 1, 2000, would have been worth only $908.99 on December 31, 2009, if left untouched.[2]



"Even in the 1930s, the S&P 500 was able to eke out a cumulative advance of 10%," Standard & Poor's Chief Investment Strategist Sam Stovall said. "Of course, back then the dividend yield of more than 5%, compounded annually, went a long way to make up for the shortcoming in prices. Today, however, the S&P 500's dividend yield hovers near 2%."

The big bear market -- which, according to Standard & Poor's, lasted from October 9, 2007, through March 9, 2009 -- was the second worst in 80 years and caused a whopping 57% decline in U.S. equity prices. This "perfect storm" saw the near-simultaneous popping of the real estate, credit, commodity, and emerging equity market bubbles. It also shattered the faith of many investors in the benefits of equity investing, asset allocation, and diversification. As many learned, when everything crashes, there's no safe place to hide.

Preparing for the Next Decade

So what will the next 10 years bring? We can't be sure. But we can look to history to give us some clues and help us make smarter decisions going forward.

- **Two decades of decline appear unlikely, although it wouldn't be unprecedented.** Even on a price-only basis, the S&P 500 has never declined in two successive decades since 1900. But S&P's Stovall warns that a two-decade trough isn't out of the realm of possibility. "Don't assume the worst of times will never be repeated -- 1930s-style declines have returned." For proof, look east. The Japanese economy is still recovering from a collapse in the early 1990s.

- **Understand that diversification can help reduce -- but not eliminate -- risk.** "Mixing asset classes with low correlations (equity-oriented investments with fixed-income instruments) cushioned prior declines, but did not eliminate them," said Stovall. "And the same was true during the most recent bear market." Remember, true diversification comes from mixing asset classes with low correlations, not high correlations.

- **Don't sit on the sidelines.** Investors who pulled out of their investments during the market decline of 2007-2008, probably lost the opportunity to benefit from 2009's big gain. While heightened volatility appears likely to continue, it doesn't mean you should shy away from investing.

- **Keep a long-term perspective.** Despite the dismal decade, stocks have still outperformed other asset classes over time. Over the last 30 years, stocks have returned an average annual gain of 12.09%, compared to 8.54% for bonds and 6.06% for cash.[3]

- **Rethink your exposure to risk.** Too many investors realized too late that they were too exposed to risk. S&P's Stovall recommends reconsidering the old adage that your age should represent your fixed-income exposure

[1]Standard & Poor's Composite Index of 500 Stocks is an unmanaged index that is generally considered representative of the U.S. stock market. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

[2]Source: Standard & Poor's. Stocks are represented by the S&P 500 index. Illustration assumes reinvestment of all distributions. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

[3]Source: Standard & Poor's. Stocks are represented by the S&P 500 index, bonds by the Barclay's Aggregate index, and cash by the Barclay's 3-month Treasury bills. It is not possible to invest directly in an index. Past performance is no guarantee of future results.