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One of the best parts of my business model has turned out to be that I perceived it is extremely important to meet with clients at least twice a year, and that these meetings are most important when things are not going well. Some people are surprised to learn, first, that I am doing this in a year like 2009, and, second, that these are productive meetings. A very interesting idea is emerging.

During 2008 stock indices, like the S&P 500, the Russell 2000 and the MSCI EAFE, declined anywhere from 30% to over 40%. What that means is a normal measure of success, i.e. your portfolio beating its benchmark net of fees, is of little comfort. That is readily apparent and, since I do not believe in market timing, after the performance report the conversation gets interesting. And this led to some new thoughts.

I entered the investment business in December, 1972. That's 37 years ago. In that time the S&P 500 has gone from around 100 to as high as about 1500 and is currently around 875. Those are impressive numbers even a raised from 100 to just 875. They are used by many people as part of a strong argument against market timing. But my current conversations with clients have caused me to look at this 37-year period differently. That difference is the contrast between a pure mathematician and someone who must share the pain of investors whose portfolios have suffered severe loss turmoil.

A graph of market results from December, 1972 to the present shows significant patterns within its long-term success. Almost immediately, in 1973 and 1974, the market dropped about 50%. From there it began a comeback but it was not until almost 1981, nine years later, that it finally surpassed its December, 1972 level. Then in 1981 and 1982 there was another severe drop, but this was followed by a dramatic recovery driving steadily upward until October 19, 1987. That is the date the market fell 20% in a single session. A recovery began quickly, but it took three years for the market to recoup entirely.

Then came the '90s, which began with moderate growth that exploded into the dot-com bubble. That bubble burst in 2000 and the market proceeded to drop 40%. There were several good years thereafter and now we are in our current turmoil; the net result of which is another eight year period of nowhere or declining markets.

What this all shows is that contrast which I noted. On the one hand, this is a very good 37-year record. But for investors, as many as 20 of those 37-years were periods of great tumult and pain that took significant time to unwind. And, most importantly, for someone looking to a portfolio for support, the big 37-year picture just doesn't cut it. That person is, perhaps, retired or looking for supplemental annual income and nine years of sideways is, to say the least, a difficulty.

What this has led me to is a realization that what has long been considered a proper asset allocation for a retiree, typically 60% equities, 40% income, may be too aggressive.

That same mathematics which focuses our attention on the long-term return of the stock market can guide us to more conservative portfolios that better fit the human reality of the current market. It is possible to capture well over 80% of the stock market's return with a portfolio whose volatility is, a fraction of the stock market's volatility.

This is an idea which has been of great comfort to many people who have been scared by this current stock market.