

## The Recent Nature of the Markets

Recent market volatility has many investors concerned about the impact on their portfolios. Weathering a down market can be unnerving; in fact, since October 2007, the S&P 500 is down over 20%. But when you consider some of the other market declines we have experienced — and recovered from — the current market downturn may appear less significant. For example, while the S&P500, representing the financial markets, lost -33.51% from 8/25/87 through 12/4/87, it actually ended the year (1987) up by 2.03%.<sup>1</sup> Moreover, in less than two years (10/10/89) the financial markets had gained more than 70%.<sup>1</sup>

Market volatility is an inherent risk in investing, especially over the short-term. While many investors panic when the market declines, it can be critical to maintain the proper perspective. When you have a long-term view, it appears obvious that short-term market movements are just blips in the continuum. That's because, over the long-term, equity investments have historically increased in value. Consider this: if it was possible to invest directly in the S&P 500 index, over almost the last eight decades, as long as you had a 10 year time horizon for your investment, you would never have a down period—even if you chose the worst time to make your investment.<sup>1</sup>

It is imperative not to react emotionally to short-term volatility. Abandoning your long-term investment strategy and selling your holdings when the market stumbles can be a serious mistake. If you sell when the market is down, you are acting in direct opposition to the conventional wisdom of buying low and selling high. Plus, you have to be correct two times: first you must determine the right time to sell, and then you must determine the right time to get back in. It can be difficult to recoup your losses if you let your emotions run your investment plan.

In order to participate in any eventual recovery, you must be present when it occurs. Therefore, remaining invested in the equity markets throughout the ups and downs can be crucial to your long-term success. If you look at the chart<sup>2</sup> on the next page, you will see that since December 1925, domestic equity small capitalization stocks have appreciated more than 12% on average, and domestic equity large capitalization stocks gained over 10% over the same time period. To put it another way, \$1.00 on December 31, 1925 in the small cap index would have grown to more than \$14,000 by 8/31/08, and that same \$1.00 would have grown to nearly \$3,000 in the large cap index.

These results were achieved despite the fact that the markets were impacted by numerous negative events during this period, including World War II, the Cuban missile crisis, the assassination of John F. Kennedy, the oil embargo, Y2K, 9/11 and the War in Iraq, to name a few.

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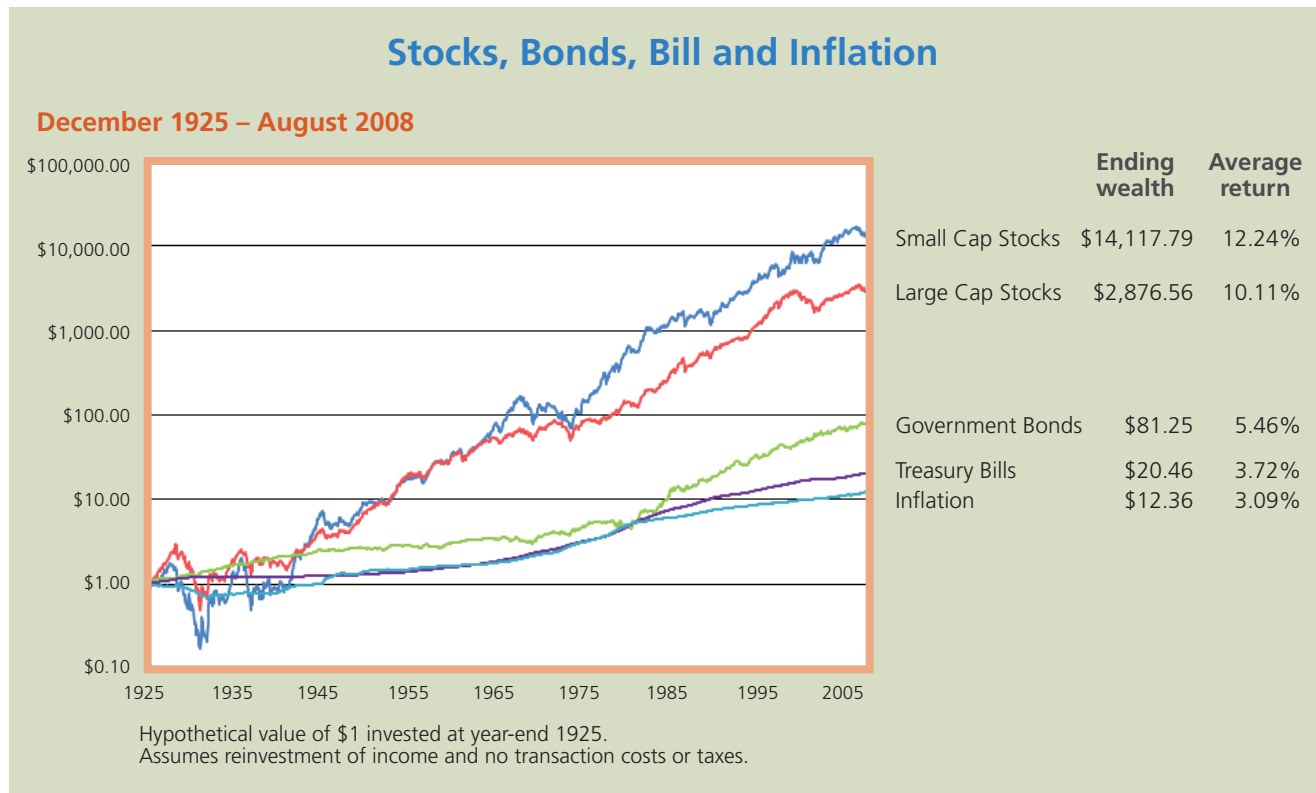
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Equity exposure can also serve as a hedge against inflation. As illustrated in the chart<sup>2</sup> below, historically, stocks are the best asset class with the highest potential to outpace inflation over the long term. Investments perceived as low risk, such as Government Bonds and Treasury Bills (T-bills), may actually be quite risky from an inflation risk standpoint. For example, since 12/31/25, T-bills would have barely kept up with inflation, with an average annual return of just 3.72%.



As you can see, by designing and implementing a well-crafted investment plan that includes equities — and then sticking to it — investors have the potential to achieve their long-term goals.

*Note: Past performance is not indicative of future results.*

*Direct investments cannot be made into any index. Index performance is not indicative of any specific investment.*

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<sup>1</sup> Source: Bloomberg.

<sup>2</sup> Source: Ibbotson.