

March Is A Reminder Of How Risk And Return Work

I wanted to share some interesting data that will be helpful in your communications with clients.

As of today's close (April 2nd), the S&P 500 index is up approximately 168 points in the past three weeks, an increase of 25% since its intraday low of 666 on March 9th. However, this index is still down over 6% for the year and over 45% from its high point reached in October 2007 (source: Yahoo! Finance). This recent gain, in the greater context of the current economy or your client's portfolios, may not be that big of a deal. While it feels good to see markets have a positive month, it certainly does not remove all anxiety. How will your clients respond emotionally to this, or any future market advance? Whatever the market may experience in the coming weeks is not important for the wealth it might restore, or the wealth that might be forfeited. More importantly, these market swings are an important reminder of how risk and return work.

Here is a quick summary of returns as of March 9th versus month-end for the S&P 500 index:

2009 Performance	MTD Ending 3/9	MTD Ending 3/31	YTD Ending 3/9	YTD Ending 3/31
S&P 500 Index	-7.89	8.34	-24.52	-11.25

Despite a tumultuous start, the month of March was one of the top 3 best months for the market. But, this is just part of the story. Equally interesting, had the monthly returns stopped on March 9th, the market would have experienced top 10 *worst* monthly performances in the last 10 years.

Monthly Ranking	# of months	MTD Ending 3/9	MTD Ending 3/31
S&P 500 Index	120	10th worst	3rd best

One of my first reactions to the recent market rise was to think of those who had recently reduced their exposure to stocks. These past three weeks alone will not make them "wrong" or make those who stayed in the market "right". (There are sensible reasons for investors to become more risk averse, just as there are reasons to become more risk tolerant.) We may very well experience further declines, or we may be in the midst of a new bull market. I would not attempt to predict either. These past weeks serve as a much needed reminder that we should never allow ourselves to get caught up in the fear gripping investors. More than ever, investors need advisors, not facilitators.

I know I am "preaching to the choir". The clients of our advisors are the most fortunate investors in the world because of the objectivity and professionalism all of you deliver. However, as advisors, we are subject to the same behavioral biases that affect all types of investors. We have not somehow immunized ourselves from these emotions, nor have we been brainwashed into behaving rationally. We simply have confidence in our message and know, without doubt, that a disciplined, diversified, low cost approach offers the best probability of long-term financial success. We all have hunches, but heaven forbid we would make investment decisions based on them. We are not immune, we just know better.

I hope my small attempt at soapbox enlightenment was helpful and something you can use for your quarterly report or client commentary. It is meant as a reminder, not a lesson, since I know my thoughts are likely echoed by all of you.