

Investor Actions and Consequences

The current bear market situation has many people contemplating their commitment to long-term strategic asset allocation. Investors may be asking themselves, “Where will the market go from here? Is this the bottom, or is the market headed lower?”

The graph below shows the results of four hypothetical investors. All of them invested \$10,000 in January 1976. With the exception of the 100% equity investor who invested solely in the S&P 500, all others rebalanced annually.

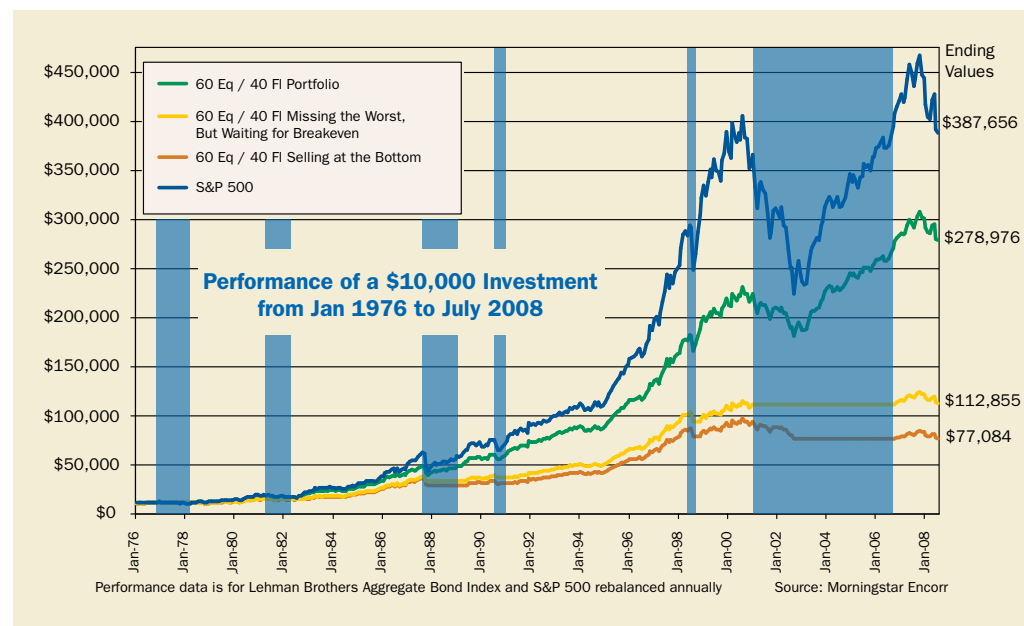
Understand the long-term cost of being out of the market

Of the four, two investors bought and held:

- The dark blue line represents an investor who bought the S&P 500 and held. His experience was the most volatile, but he ended with the highest return.
- The green line shows an investor who invested in 60% S&P 500 and 40% Lehman Aggregate Bond, and held through all types of markets throughout the past 32 years. While she netted a lower return than the 100% equity investor, she experienced a smoother ride.

The other two investors pulled their money out either during or after a 10% or greater decline in the S&P 500. Their thinking follows that of some investors today, “I’ll just sit on the sidelines for awhile, and wait for the market to come back a bit...”

- The orange line shows an investor who sold at the worst possible time. He withdrew his money when the market bottomed out and waited for the S&P 500 to get back to even before reinvesting.
- The yellow line represents an investor with slightly better timing. She sold when the market was down 10%, experiencing only some of the market decline, but still waited for the S&P 500 to get back to breakeven. In other words, if the market was ultimately down 20% at its worst point, this investor would have had the foresight to get out while there was only a 10% decline.
- The blue shaded areas show when these clients were out of the market. The investor with slightly better timing was out of the market for a longer period of time than the investor who redeemed at the absolute bottom, 29% of the time vs. 15% respectively.



Avoid selling at the wrong time

As illustrated above, the investors who panicked and sold were in a much worse position over time. Their inability to correctly time the market bottom and the missed opportunities of being out of the market altogether had a negative impact for these investors over the long run.

Outcomes for 60% Equity / 40% Fixed Income Investors

Investor	Ending Balance	% Shortfall vs. Stay the Course Investor	Dollar Shortfall
Staying the Course	\$278,976	--	--
Losing Only 10%	\$112,855	- 59.5%	- \$166,121
Getting Out at the Worst Time	\$77,084	- 72.4%	- \$201,892

Below is a chart that illustrates the length and severity of S&P 500 declines of 10% or greater. You'll notice that although some of the declines have been severe, the market and the economy have come back to reach new highs.

S&P 500 Declines of 10% or Greater

Peak Date	Trough Date	Recovery Date	Decline (%)	Decline Duration	Recovery Duration
Aug-29	Jun-32	Jan-45	- 83.41	34	151
May-46	Nov-46	Oct-49	- 21.76	6	35
Jul-56	Feb-57	Jul-57	- 10.24	7	5
Jul-57	Dec-57	Jul-58	- 14.95	5	7
Dec-61	Jun-62	Apr-63	- 22.28	6	10
Jan-66	Sep-66	Mar-67	- 15.64	8	6
Nov-68	Jun-70	Mar-71	- 29.25	19	9
Dec-72	Sep-74	Jun-76	- 42.63	21	21
Dec-76	Feb-78	Jul-78	- 14.13	14	5
Nov-80	Jul-82	Oct-82	- 16.91	20	3
Aug-87	Nov-87	May-89	- 29.53	3	18
May-90	Oct-90	Feb-91	- 14.7	5	4
Jun-98	Aug-98	Nov-98	- 15.37	2	3
Aug-00	Sep-02	Oct-06	- 44.73	25	49
Oct-07	???	???	- 16.89	9	???

Let logic prevail over fear

The result of this analysis is clear. Investors who attempt to avoid losses, or otherwise “time” the market, did more harm to themselves than good when compared to the investor who “stayed the course.” Investors who sold out after significant drops experienced the worst returns by far. Attempting to pick market tops or bottoms can result in increased transaction costs, lost opportunities, and the potential for investing or withdrawing at the worst time. Some investors who attempt to time the market may think, “Well I won’t wait for the market to break even before reinvesting.” That may sound logical, but when is the right time to reinvest? What if you invest the money too soon and the market heads lower and continues to achieve new lows? Do you sell again? What if the market has several good days and you miss your planned entry point?

Although it may be painful or seem like the wrong thing to do, staying invested in a well diversified, strategically allocated portfolio helps investors fare better in both good and bad markets.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Returns and principal invested in stocks are not guaranteed. Holding a portfolio of securities for the long-term does not insure a profitable outcome and investing in securities always involves risk of loss.

Source: Stocks are represented by the Standard & Poor’s 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. The Northwestern Mutual Financial Network is a marketing name for the sales and distribution arm of The Northwestern Mutual Life Insurance Company, its affiliates and subsidiaries. Securities offered through **Northwestern Mutual Investment Services, LLC (NMIS)**, member FINRA and SIPC. 1-866-664-7737. NMIS is a wholly owned company of Northwestern Mutual. Northwestern Mutual is not a broker-dealer.

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