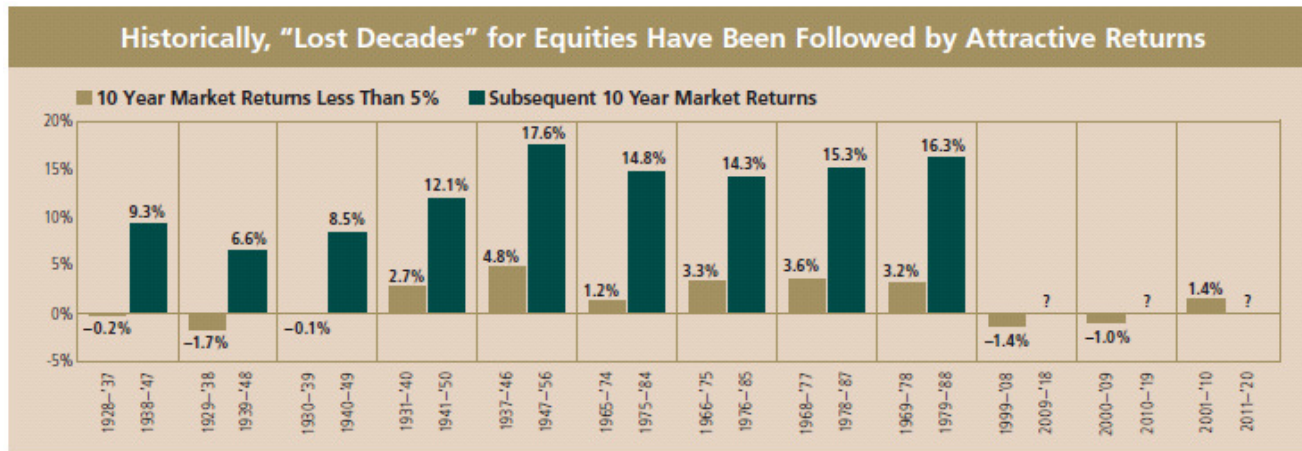


# INSIGHT

AUGUST 2011

## Capricious Markets

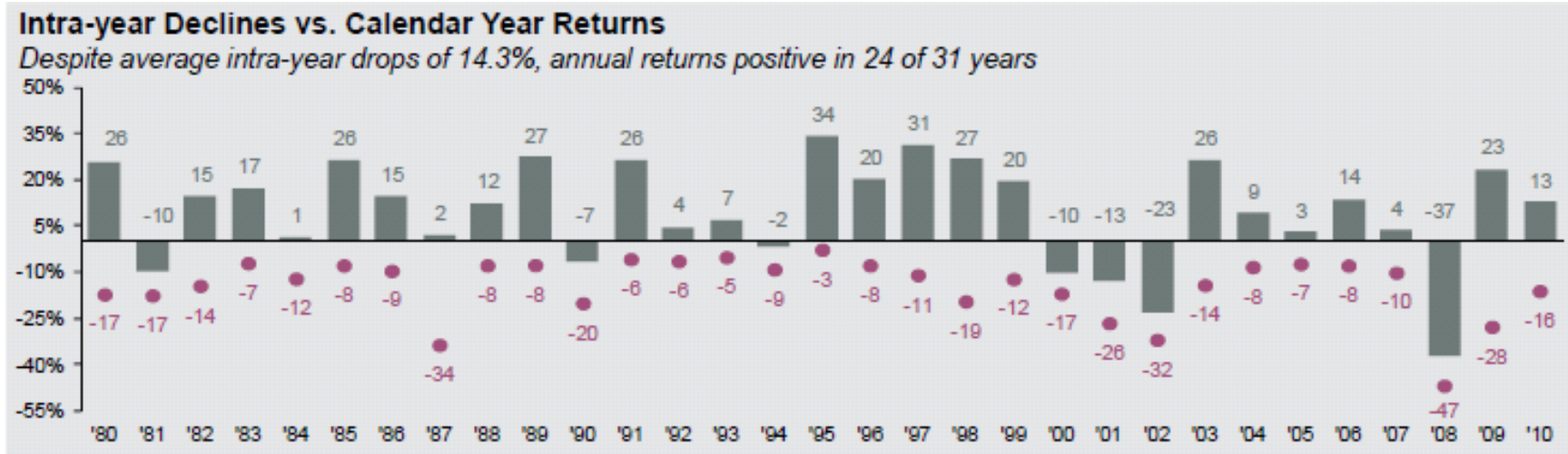
The capricious nature of today's financial markets might lead one to wonder what the world is coming to. Recently, Standard and Poor's downgraded the United States sovereign credit rating from AAA to AA+. All things being equal, one could assume that interest rates



would rise. Ah, but the financial markets don't work that way! A couple of weeks later the 10-year U.S. Treasury Note touched a post World War II intraday low of 1.99%. The stock market has also seen its fair share of mood swings as well.

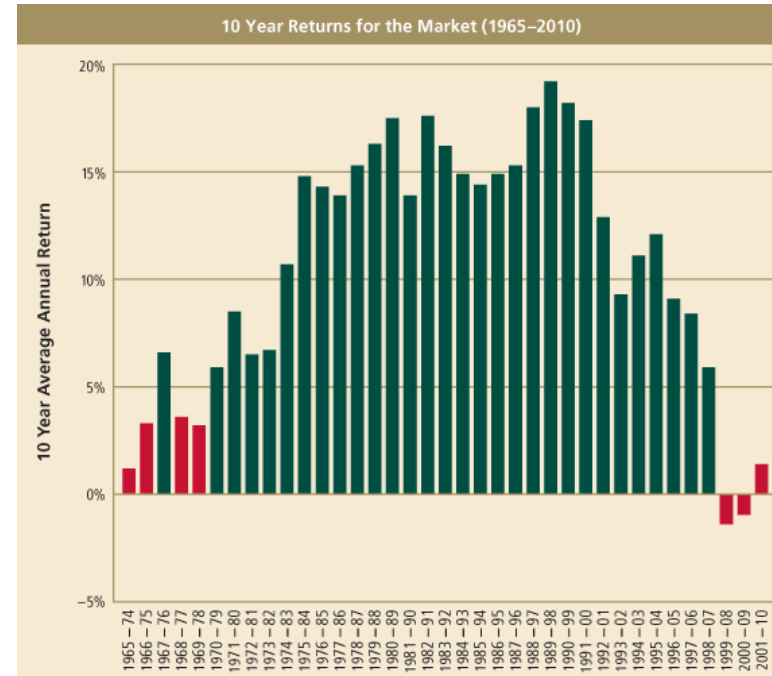
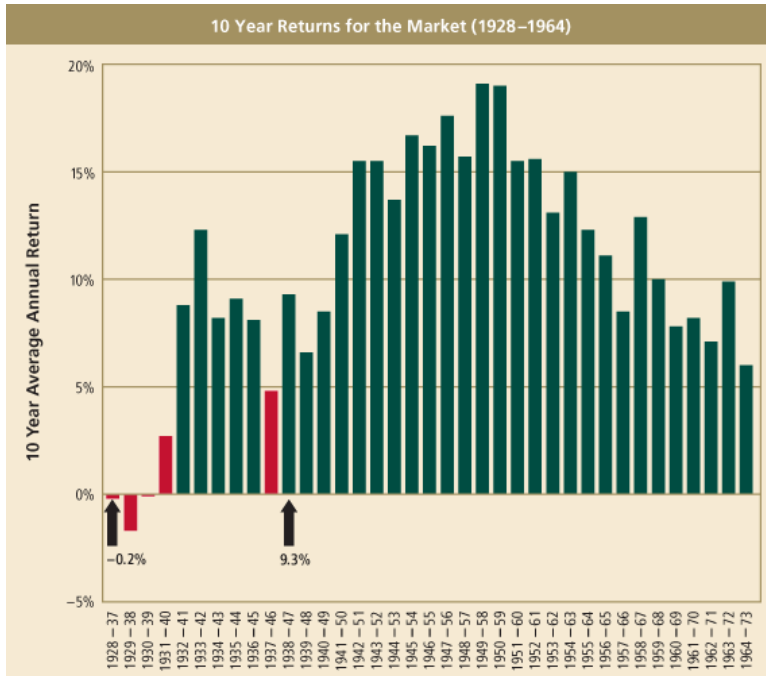
**The sudden and unaccountable changes in the financial markets' behavior are just the way the markets work.** Its how new information is absorbed and discounted. As the charts on this page show, volatility, even to the downside is not incompatible with good long-term results.

Source: Thomson Financial, Lipper and Bloomberg. Chart represents the annualized returns of the S&P 500® Index from 1958 through 2010. The period 1928 through 1957 is represented by the annualized returns of the Dow Jones Industrial Average. Investments cannot be made directly in an index. **Past performance is not a guarantee of future results.**



Source: Standard and Poor's, FactSet, J.P. Morgan Asset Management.

After suffering through a painful period for stocks, investors often reduce their exposure to equities or abandon them altogether. While understandable, such activity often occurs at precisely the wrong time. Though extremely challenging to do, **history has shown that investors should feel confident about the long-term potential of equities after a prolonged period of disappointment.** Why? Because historically low prices have increased future returns and crisis has created opportunity.



Consider the charts above which illustrate the 10 year returns for the market from 1928-2010. The red bars represent 10 year periods where the market returned less than 5% per year. From 1928-2010, there have been twelve 10 year periods where the market has returned less than 5%. **However, in every past case, the ten year period following each disappointing period produced significantly better returns.** For example, the -0.2% average annual return from 1928-1937 was followed by a 9.3% average annual return from 1938-1947. Furthermore, these periods of recovery averaged 13% per year and ranged from a low of 7% per year to a high of 18% per year. While we cannot know for sure what the next decade will hold, it appears highly likely to be far better than what we have experienced in the last 10 years. Investors who bear in mind that low prices increase future returns are more likely to endure hard times and be there to benefit from subsequent periods of recovery.

*“Nobody cleared a path for themselves by giving up.” Anna Quindlen*

Important Note: Past performance is no guarantee of future results. Please do not assume that any information contained in this Insight serves as the receipt of, or as a substitute for, personalized investment advice from Madison Wealth Management.