



## The Case For Waiting Out The Storm

*When the going gets tough, the tough hang in there...*

Today's financial markets are certainly giving a lot of Americans strong concerns about the wisdom of investing in stocks. The many months of negative returns in most major markets has taken its toll on even the bravest investors. In order to put today's very difficult events into some perspective it might help to look back at what other people at other times may have experienced.

### **HYPOTHETICAL ILLUSTRATION:**

**Two people invest \$100,000 each into identical equity portfolios on January 1, 1973, and were able to successfully reproduce the returns of the S&P500.\* Consider the abysmal market environment during 1973 and 1974 and the impact of negative returns on their portfolios:**

3 Months Later...	\$95,120	(March, 1973)
6 Months Later...	\$89,631	(June, 1973)
9 Months Later....	\$93,951	(September, 1973)
12 Months Later....	\$85,345	(December, 1973)
1 Year, 9 Months Later....	\$57,378	(September, 1974)

**What if at this point, Investor #1 gave up and “threw in the towel”? See how the results would look if Investor #1 liquidated the portfolio instead and invested the remaining \$57,378 at a hypothetical 5% rate of return\*\*:**

6 Months Later....	\$58,813	(March, 1975)
12 Months Later...	\$60,247	(September, 1975)
2 Years Later...	\$63,259	(September, 1976)
5 Years Later...	\$73,230	(September, 1979)
10 Years Later...	\$93,462	(September, 1984)

**Whereas Investor #2 remained committed to the original equity investment strategy and continued to mimic the returns of the S&P500 with the remaining \$57,378?**

6 Months Later...	\$77,157	(March, 1975)
12 Months Later...	\$79,262	(September, 1975)
2 Years Later...	\$103,404	(September, 1976)
5 Years Later...	\$124,768	(September, 1979)
10 Years Later...	\$244,437	(September, 1984)

### **Food for thought.**

*\* Market indices (like the S&P 500 or the Dow 30) cannot be invested in directly. Index funds were also not widely available to the investing public in the early 1970s.*

*\*\* The fixed rate of 5% is a hypothetical number that is not indicative of any guaranteed investment available now or in the past. The investment results depicted herein represent hypothetical investments only. They also represent historical gross performance with no deduction for investment management fees or transaction costs. Actual returns would be reduced by expenses that may include management fees and costs of transactions. Although the statements of fact and data in this report have been obtained from, and are based on, sources that the Firm believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions included in this document constitute the Firm's judgement as of the date of this document and are subject to change without notice. This document is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. Past performance is not a guarantee of future results. Consulting Group is a division of Salomon Smith Barney Inc. Member SIPC. Salomon Smith Barney is a registered service mark of Salomon Smith Barney Inc.*

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