



**WHAT TO DO AFTER THE MARKET
GETS CLOBBERED BY 10% OR MORE?
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In the past two weeks, the S&P 500 Index declined 11%, including a one-day loss on Thursday August 4th of 5%. It's easy to know what should have been done before, but what is really important is *what to do now?*

Assuming investors are in a well diversified portfolio, history suggests staying the course. While the perceived risk in the current market is extraordinarily high, past results indicate superior investment returns over a 6-month, 1-year, and 2-year time horizon. Since 1950, there have been 14 instances where the market declined 10% or more in just 10 days. The results show that the average market return was 20.8% in the following 12 months with 77% of those instances being a positive return (See green highlighted returns in chart).

S&P 500 Performance After 10%+ Decline
(Decline of 10% or more over 10 Days)

Instance		Short-Term Returns			Long-Term Returns		
Date	Loss	1 Day	1 Wk	1 Mon	6 Mon	12 Mon	24 Mon
May-62	-12%	4.6%	3.7%	-2.0%	10.6%	26.7%	44.3%
May-70	-11%	-1.4%	10.8%	5.3%	17.9%	42.5%	55.1%
Jul-74	-10%	-0.1%	4.6%	1.1%	-11.2%	18.5%	30.0%
Aug-74	-11%	-1.0%	-3.7%	-5.6%	10.8%	13.0%	40.6%
Oct-74	-11%	0.1%	12.1%	17.3%	30.9%	38.0%	67.3%
Oct-87	-14%	-20.5%	-12.2%	-14.0%	-8.1%	-2.2%	21.3%
Aug-98	-12%	3.9%	6.9%	3.0%	28.0%	39.0%	57.0%
Mar-01	-11%	-0.4%	2.8%	9.1%	-10.6%	2.3%	-23.0%
Sep-01	-12%	-0.6%	-3.4%	3.7%	12.2%	-16.3%	0.1%
Jul-02	-14%	-3.3%	0.6%	10.6%	7.9%	16.6%	29.4%
Oct-08	-12%	-3.9%	-18.2%	-8.5%	-23.4%	-4.0%	5.5%
Nov-08	-12%	1.0%	0.1%	4.1%	6.7%	30.4%	40.7%
Jan-09	-13%	4.3%	5.0%	-4.4%	18.1%	38.7%	59.0%
Feb-09	-14%	4.0%	-5.7%	9.5%	35.5%	48.7%	75.9%
Avg		-0.9%	0.2%	2.1%	9.0%	20.8%	35.9%
# Gains		6	9	9	10	11	13
# Losses		14	14	14	14	14	14
Batting Avg		43%	64%	64%	71%	79%	93%

While the long-term returns following such declines have been attractive, it did not come without short-term volatility. In fact, the declines of 1987 & 2008 turned out to be just the beginning of bigger corrections (See red highlighted in chart). However, even in these two worst cases, the market rebounded back within a year and reported healthy total gains of 21% and 6% respectively after two years. In conclusion, the short-term volatility following a big market decline can be a bit scary, but history suggests that disciplined investors have been amply rewarded.

We believe our clients' portfolios are positioned to withstand, recover, and grow from recent declines. Our portfolios are heavily comprised of high-quality issues (strong market share, balance sheets, and returns on equity) trading at below average valuation levels. A strategy comprised of such traits has historically outperformed in down markets.

Our value approach combined with our flexible mandate gives us the opportunity to take advantage of the recent selloff. We are always looking to trade into stocks that may have been unfairly punished and have even better risk/return profiles than existing holdings. While our portfolios could go either direction from current levels in the short term, history suggests staying the course.

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