

Market Turmoil: The Value of Staying the Course

Following five years of above-average returns, the S&P 500 has witnessed losses in 12 of 19 months through the end of the year starting with June 2007 while volatility, fueled by factors such as the subprime mortgage crisis, declining home prices, failing banks, commodity prices, has been high. These are real issues that impact everyone in some form or capacity.

During the aforementioned period of out-performance, the S&P 500 earned an average annual return of 12.8%, or about 2% more than the long-term average. But by the end of 2008, returns were battered by the poor performance of financials (-55%), Materials (-45%), and Technology (-42%). The S&P 500 finished 2008 with its second worst calendar year at 903.25 (first and third were in 1931 and 1937).

Normally, the fixed income market tends to offer good diversification in times of stock market downturns. However, the Barclay's Capital Aggregate Bond Index only returned 5.2% for 2008. Treasuries, considered a safe haven during high volatility or tight credit conditions, have performed better and ended up returning approximately 11.5% for the year.

Since 1950, the S&P 500 has lost at least 20% from the peak to the bottom of the market eight times; three in the 1970s and two each in the 1980s and 1990s. Prior to 2007, the last major bear market occurred with the S&P 500 declined 49% from the peak on March 24, 2000 to the bottom on March 11, 2003. The S&P 500 had several false rallies before it finally found that bottom and started to recover. In the first three months after the bottom, the S&P 500 had rebounded nearly 25%. Notably, investors on the sidelines in those first few months of recovery missed a dramatic increase in the market.

The S&P 500 peaked on October 9, 2007 at 1,565.16 and reached a new closing low of 752.44 of October 20, 2008, a drop of approximately 52%. Based on studies performed by Raymond James AMS Institutional Research, when there has been a major correction in the market (defined as greater than a 10% loss in the S&P 500 from top to bottom), the average loss has been 21%. In the 12 months that have followed that bottom, the average recovery has been 34%; 50% in the first 24 months.

As the table below illustrates, missing the best days in the markets can have a major impact on an investor's long-term portfolio performance.

The Penalty for Missing the Market

S&P 500 Index: 1/01/1989 through 12/31/2008

Investment pattern over a 20-year period	Average annual returns	Growth of \$10,000
Fully invested	8.43%	\$50,430
Miss 10 best days	4.88%	\$25,933
Miss 20 best days	2.53%	\$16,495
Miss 30 best days	0.54%	\$11,137

Source: Interactive Data Systems (IDS). Based on the Daily Total Return of the Standard and Poor's 500 Index, including dividend reinvestment.

In this 20-year period, missing the 10 best of the 5,113 total trading days would have been detrimental. If an investor cannot time the market, why try?

Statistically, predicting the market's peak is extremely difficult. Likewise, predicting the bottom is just as difficult. The chances of predicting both are exponentially more improbable.

So, what should be done? For starters, it is in times like these that investors should ensure they are appropriately diversified with a strategy that makes long-term sense for their needs. Additionally, as long as their investment plan is still aligned with their investment needs, risk tolerance, and time horizon, investors should stick with it. The markets have always seen volatility on the up side and on the down side. While nothing is guaranteed, history has shown that those investors who stick with their well-diversified investment plans often end up with better returns than those investors who try to time the market.

As the old saying goes, it is not "timing the market," but "time in the market."

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The S&P 500 is based on the average performance of 500 widely held common stocks. The S&P 500 is a broad based measurement of changes in stock market conditions.

The Barclay's Capital Aggregate Bond Index includes fixed rate debt issues rated investment grade or higher by Moody's Investors Service, Standard and Poor's, or Fitch Investor's Service, in that order. All issues must have at least 1 year left to maturity and have an outstanding par value of at least \$100 million. The Aggregate Index is comprised of the Government/Corporate, the Mortgage-Backed Securities, and the Asset-Backed Securities indices.

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