The Successful Retirement Series™ Supplement
July 2009

Stop Worrying and Learn to Love the Bear

"If you expect to be a net saver during the next five years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. In effect, they rejoice because prices have risen for the "hamburgers" they will soon be buying. This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices."

Warren Buffett
1997 Chairman's Letter to Shareholders

For investors saving for retirement, especially those with a contemplated retirement date of ten or more years away, we find profound misunderstanding of the e ects of the recent market collapse. *The market crash is great news for anyone saving money and investing in stocks.*

How can this be true? How can it possibly be to your advantage to have your 401k balances decline by 30% or more?

The reason is simple. *As a saver, you are a buyer.* Buyers *always* benefit from lower prices. The market break is an opportunity, an advantage, a gift (insert your own favorite positive word here) for everyone saving toward a secure retirement, as long as you do two things:

- Keep saving
- Keep your money invested primarily in stocks

As a saver, the absolute worst thing you can do during a bear market is to sell stocks and buy "safe" assets. The second-worst thing is to stop saving.[1]

Consider one example: In October of 2007, one "share" of the S&P 500 Stock Index cost $1,576. An individual saving $15,000 to a 401k would have bought 9.5 shares of the S&P, with a projected dividend yield of just $255 per year. By March of 2009, the S&P 500 had declined to

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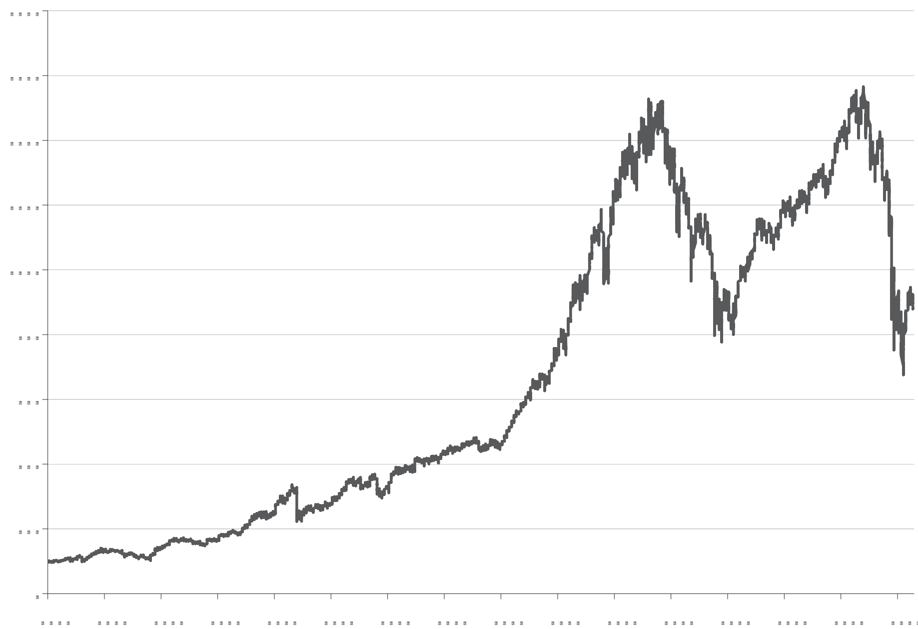
S&P 500 (1979-2009): When would you have wanted to buy?



666.79 (a very scary number). The same $15,000 purchased 22.5 shares of the S&P, with a projected annual income of $615. *When the market goes down, every dollar of your savings buys more economic value, and more potential retirement cash flow.*

Over time the stock market is five to ten times more volatile than the real economy. The way to maximize economic value in your retirement plan is to buy when prices are low — when the news is grim and trailing performance is awful.

Yet many savers do just the opposite. Year-end 2008 data showed 401k participants with their lowest percentage stock holdings in twenty years, as investors shifted money *out* of stocks and *into* low yielding "safe" insurance contracts.

We have been financial advisors for over thirty years. One of our core beliefs, based on those three decades of experience, is this: *It is the choices you make in bear markets that have the greatest effect on your long-term security.*

Here is an interesting thought-experiment. Look at the market chart to the left (Chart 1). Over the thirty years shown, with the benefit of hindsight, when would you have most wanted to put new money into stocks? Mark these points with an up arrow. Now, consider what the news was like, how the markets were acting, and what the trailing performance of stocks was, at each of your chosen buy points. *Every one of those big buying opportunities (October of 1987, December of 1990, July of 1998, October of 2002 and March of 2009) was accompanied by awful news, scary declines, and dreadful trailing performance.*

The worse the news, the better the opportunity. Sell on bad news, because you are scared, and you will most likely fail. Hold on and keep saving, and you will probably succeed. Screw up your courage and buy on bad news, and you may significantly enhance your wealth.

Want to retire early? Want to retire richer? *Buy when the market is on sale.*

[1] A complete discussion of the causes and consequences of the market crash of 2007 to 2009 is beyond the scope of this White Paper. We direct you to our January 2009 White Paper, *Coping Amid Chaos: An Investor's Survival Guide*, for our analysis of the bear market.