

The impact of staying on the sidelines

Trying to bounce back means investing sooner rather than later.

As we emerged from the difficult economic environment of 2008 and early 2009, many investors found their diversified portfolios down by one-third or more. Watching a portfolio decline so quickly and dramatically is challenging to say the least, and many investors may now wonder how long it will take to return to pre-downturn levels, especially given the heightened market volatility of August and September 2011.

Looking at history as a guide, we can study how the market behaved coming out of prior market downturns. Monthly index returns from 1926 through 2008 show seven periods comparable to the current recession where markets were down more than 25% and the down period lasted longer than 12 months. The data shows that average annualized market returns were notably higher in the 10 years after each market rebound compared to long-term results from 1926–2008. Keep in mind that markets, in general, rarely return “average” gains but give us a series of returns that are higher and lower than the long-term average. And while indexes are unmanaged and cannot be invested in directly, they are a good proxy for the market.

When post-correction returns are higher than the long-term average, the amount of time to recover from a one-third downturn is dramatically reduced. The exhibits to the right demonstrate this point. Exhibit 1 shows that using long-term market averages, it took an investor with a portfolio that was invested 60% in equities and 40% in fixed income approximately 5.2* years to recover from a one-third loss, and it took an all-equity investor approximately 4.6 years. If you look at the returns experienced just in the 10 years after the downturns (Exhibit 2), which we’ve established are often higher than average, an investor with a 60/40 portfolio took 3.8 years to recover the one-third loss. This is a reduction in recovery time of almost 1.5 years. Investing in all equities, while increasing the exposure to risk, reduced the investor’s recovery time by 1.7 years—a 37% quicker recovery.

For an all-cash investor, there is little difference between the long-term average recovery time and the post-correction recovery time. Both scenarios result in bounce-back timeframes in excess of 10 years.

History makes the message clear: investors who sit on the sidelines after a downturn missed the higher-than-average returns that followed market corrections. While it may be tempting to stay in cash until you’re sure the markets have calmed, history shows us that you may have a better chance of recouping your losses—and doing so at a faster rate—if you re-enter the equity markets sooner rather than later. As the economy shows signs of recovery, consider the cost of waiting. It takes some courage, but with the help of your financial advisor and a focus on your long-term goals, you can find the right strategy to get off the sidelines and back into the game.

*Please note that example timeframes do not take into account the impact of additional contributions, which could shorten the recovery time in any scenario. Taxes and expenses have not been included in the analysis. Had they been included returns would have been lower and recovery time would have been longer.

Exhibit 1: Years to recover from 33% loss

(based upon 1926–2008 average annualized market returns)

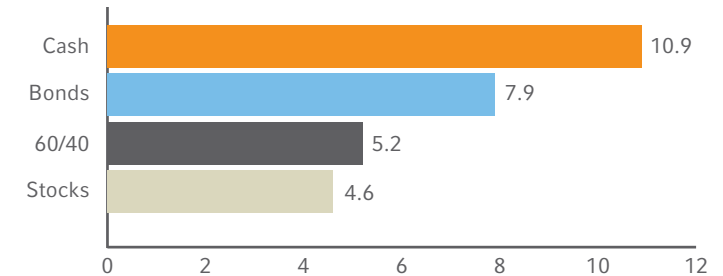


Exhibit 1: Using average market returns from 1926–2008, it took an equity investor 4.6 years to recover from a 33% decline in their portfolio.

Source: Stocks: Ibbotson to 1979, Russell 3000® Index 1979–2008. Bonds: Ibbotson to 1979, Barclays Capital U.S. Aggregate Bond Index 1979–2008. Cash: Ibbotson to 1979, CitiGroup T-Bill Treasury Index 1979–2008. 60/40: 60% MSCI All Country World, 40% Barclays Capital U.S. Aggregate Bond Index.

Exhibit 2: Years to regain 33% loss

(based upon average annualized ten-year market returns post market correction)

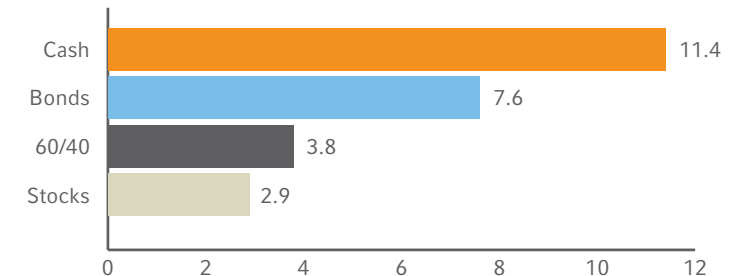


Exhibit 2: Using average 10 year market returns following the prior 7 markets corrections of -25% and 12 months in duration dating to 1926, it took an all equity investor 2.9 years to regain from a 33% decline in their portfolio.

Source: Stocks: Ibbotson to 1979, Russell 3000® Index 1979–2008. Bonds: Ibbotson to 1979, Barclays Capital U.S. Aggregate Bond Index 1979–2008. Cash: Ibbotson to 1979, CitiGroup T-Bill Treasury Index 1979–2008. 60/40: 60% MSCI All Country World, 40% Barclays Capital U.S. Aggregate Bond Index.

Russell Investments is a research partner of Capital Fiduciary Advisors, LLC (CFA). CFA utilizes a customized, open architecture investment management process, which may include products and strategies affiliated with Russell Investments.

For more information on institutional global investing, please contact Capital Fiduciary Advisors, LLC at 703-871-1336 or Jacolyn.Wetmore@CapFiduciary.com. CFA is a registered investment advisory firm based in Vienna, Virginia, and a subsidiary company of Access National Bank - NASDAQ: ANCX.



Access National Bank®
progressive business banking

www.russell.com

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Bond investors should carefully consider risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage backed securities, especially mortgage backed securities with exposure to sub-prime mortgages.

Investment in global, non-U.S. or emerging markets fund's return and net asset value may be significantly affected by political or economic conditions and regulatory requirements in a particular country. Investments in non-U.S. markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation. Such securities may be less liquid and more volatile. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and political systems with less stability than in more developed countries.

Historical stock data from 1926–1979 is from Ibbotson Associates, Inc., which publishes annual yearbooks featuring comprehensive, historical views of the performance of capital markets in the United States dating back to 1926.

Russell 3000® Index: The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

CitiGroup T-Bill Treasury Index: An unmanaged index composed of all US Treasury notes and bonds with remaining maturities of at least one year and outstanding principal of at least \$25 million that are included in the Citigroup Bond US Treasury Index. Securities in the US Treasury Index are weighted by market value, that is, the price per bond or note multiplied by the number of bonds or notes outstanding.

MSCI All Country World Index: A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2009 the MSCI ACWI consisted of 45 country indices comprising 23 developed and 22 emerging market country indices.

Barclays Capital U.S. Aggregate Bond Index: An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities.

Russell Investment Group is a Washington, USA corporation, which operates through subsidiaries worldwide, including Russell Investments, and is a subsidiary of The Northwestern Mutual Life Insurance Company.

Nothing contained in this material is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

The Russell logo is a trademark and service mark of Russell Investments.

Russell Financial Services, Inc., member FINRA, part of Russell Investments.

Copyright © Russell Investments 2011. All rights reserved.

First used September 2009. Revised October 2011.

RFS 11-6662