StoneRidge Wealth Management

Sept 2011

The Quarterly Profit

Moving Forward: The 10% Reality Check

We've all heard this one, haven't we? "The markets have averaged more than 10% per year since WWII." And they have. In January of 1945 the Dow was about 154. Now it's about 11,000, having increased by a multiple of 71 times in 67 years, or slightly more than 10% per year. (Compliance requires me to state that the Dow is not a security, and that past performance is not a guarantee of future performance) So why aren't we all laughing our way to the bank, and singing "Happy Days Are Here Again"? 10% average returns are wonderful, indeed! Since 2000, our $500,000 would have grown to about $1.5M, and $1M would have reached $3M! But unfortunately, there were several small bumps in our 10% road, including a tech bubble, the attacks of Sept. 11, Katrina, Enron's collapse, continuous military engagement in the Middle East, our 2008 financial debacle that can't seem to mend, a European credit crisis that may still be in the early stages, a cataclysmic disaster in Japan that disrupted supply chains all over the world, and the shocking downgrade of Uncle Sam's credit rating. The Dow was just under 11,000 in January of 2000 and is about 11,000 now. For the sake of discussion, let's assume it will be about 11,000 on January 1, 2012. Flat line, baby! Without question, 2003 through 2007 were growth years, especially when a portfolio included a solid increment of emerging markets. But 2000 through 2002 were the first three consecutive years of market loss since the Great Depression and the combined gains of 2009 and 2010 didn't offset the stunning losses of 2008.

So where did the 10% average growth come from, and more importantly, will we ever see it again? There is an old statistics joke, "In God We Trust… but everyone else must bring reliable data!" So here is some data to chew on. In January 1945, the Dow was about 154. Twenty years later, (January 1965) the Dow was about 889, for an increase of almost 6 times! The incremental five year periods saw increases of 30% to 50%, with nearly a doubling between 1950 and 1955. But this was the twenty years following WWII, arguably one of the greatest economic expansions in our history. These years can hardly be called "average", so I suggest we isolate them for historical interest, but not include them as an expectation for tomorrow.

What happened between 1965 and 1980? Another rip-roaring growth cycle? Hardly. In January of 1965 the Dow was about 889. Fifteen years later, January of 1980, it was about 786, for a decline of about 12%. Along the way, there was political unrest, economic expansion and contraction, plus our prolonged military involvement in South East Asia. The markets showed periods of significant volatility, with the Dow swinging to a low of about 607 in 1974 to a high of about 1002 in 1976. Sound familiar? Looks a bit like our drop from 14,000 in October 2007 to about 6,600 in March of 2009 and back to 12,800 in April this year. The "average" was a loss of nearly 1% per year. Maybe we should view this fifteen year period as being more indicative of what the future might bring.

And then along came the advent of technology as we know it, and flipped the world on its ear! The Dow skyrocketed from 786 in January of 1980 to about 10,900 in January of 2000 for a multiple of about 13 times! Sure, there were a couple of very sudden drops (1987 and 1998) that provided some short lived nausea, but most of these 20 years were up, up and away for an average return of about 14.5% per year…until the tech bubble broke in the spring of 2000 and stopped it cold.

Moving forward, how can we use this data to help us invest for our futures? Clearly, we can't simply assume that the markets will continue to "average" 10% per year. If we dismiss the gains from both the post WWII expansion and the tech bubble as

(Continued on page 2)

The 10% Reality Check ...

being extraordinary and unlikely to be repeated, then we show a very disappointing “average” of slightly negative market growth each year. But this is not a valid interpretation either, because those 40 years of growth actually occurred and we should expect periods of growth again. The obvious question is what will cause our future growth cycles, and what degree of growth might reasonably be expected?

First, we must recognize that the US markets and the Dow can no longer be viewed as our only benchmarks for comparison and portfolio growth; we must pay attention to the Hang Seng, FTSE, Nikkei, and Bovespa too. The dynamic economic growth of the emerging markets, coupled with a global population that will soon exceed 7 Billion, will continue to be the primary drivers of US and global economic growth.

Second, we must not assume that the US and global markets will provide any “average” return at all, especially in times as volatile as these. Rather, we must continue to assess the short and mid term global strengths, weaknesses, opportunities and threats, and adjust our investment portfolios accordingly. We must always be prepared to take defensive positions and to embrace the more conservative investments. At the same time, we must be open and ready for those opportunities when significant portfolio growth is available. Let’s summarily toss the 10% rule, and replace it with our worthy goal of safety first, and growth second.

Van Mason

Adding Value The Whole Year Through...

We wanted to take a moment and thank our clients who participated in our friends and family events this year! Van and I are honored to meet the special people in your lives. We have met siblings ,children, church members, life long friends, co-workers, in-laws, golfing buddies, Bunco and Bridge friends, neighbors, exercise partners, and so many others. As we move forward, we are always looking to bring more value to our clients, their friends and family. Recently we had a wonderful speaker from the Alzheimer's Association. The information was very informative and I retain handouts for clients who would like the information. For the remainder of the year we have some very exciting events. In October we will be hosting a friends and family dinner at Ruth’s Chris Steakhouse new location on Broadway. Let’s welcome the holidays with a friends and family glass blowing event; you will be blowing your own glass ornament.

The calendar for next year is filling with topics you don’t want to miss! "Securing your home for travel" presented by a former FBI agent. "A camera lesson", special things to look for when taking pictures. "A women’s panel" Meet other dynamic ladies and discuss life's transitions. "Discovering what matters", defining your purpose in retirement. Let's celebrate your birthday! We will be hosting special birthday lunches in 2012. "Get those Social Security questions answered" with a representative from the Social Security Administration. "Taxes and Politics", a special presentation by Eaton Vance as we move into the election season and more events to come.

If you have a topic that you find especially interesting, please contact me and we'll consider it for our 2012 programs.

Amy Treat, Chief Operating Officer/Partner

StoneRidge Wealth Management
Rock Solid Retirement & Estate Planning

Visit us @ www.stoneridgewm.com
Contact: amy.treat@lpl.com (or) van.mason@ lpl.com

8625 SW Cascade Avenue, Ste 240, Beaverton, Oregon 97008
503.352.0188 or 360.567.0784