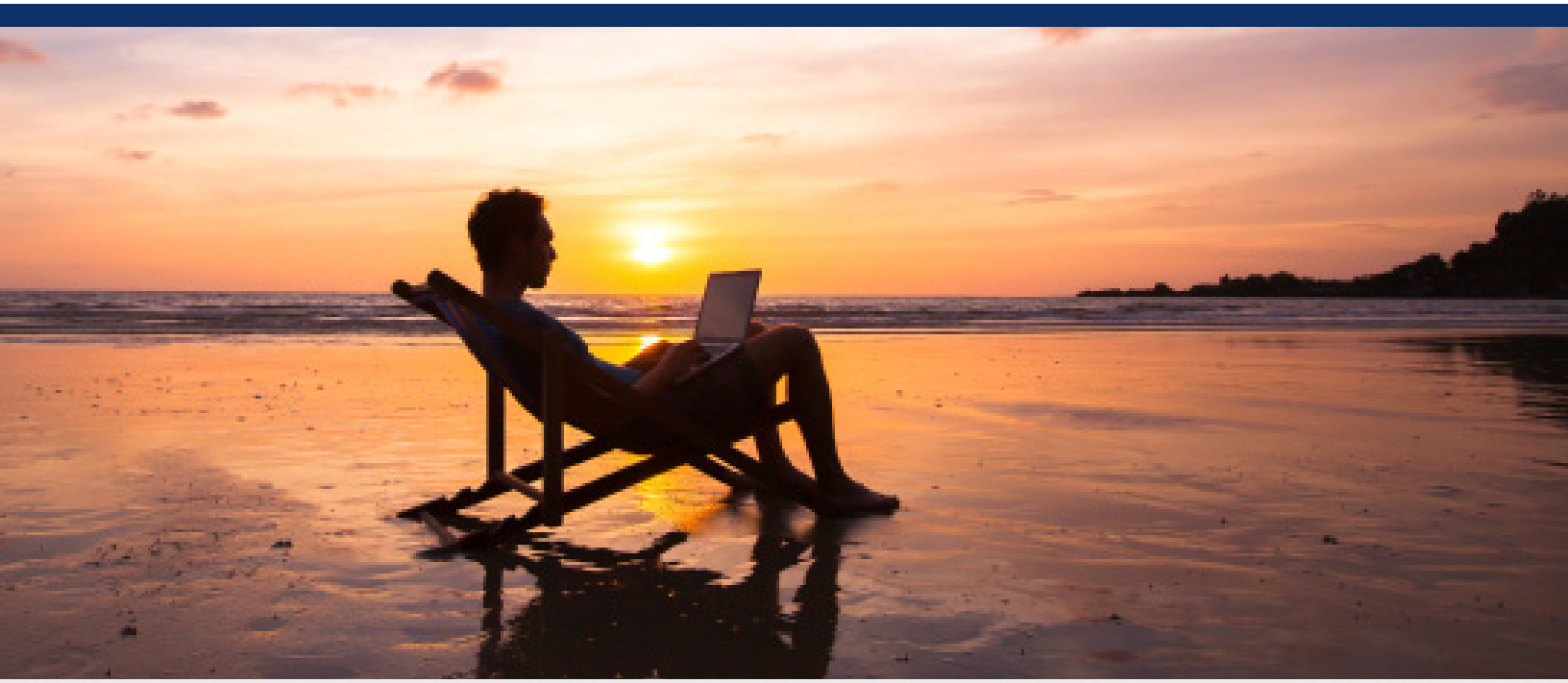
Envoy Wealth Management LLC
Our mission is your success.





# Emotional Investor Series

## Summer of 2011
## White Paper

The **Emotional Investor Series** explores how current events could lead investors to what we call Emotional Market Timing.

The **Summer of 2011** white paper discusses the effects on the markets of events that were making headlines that year, such as the European sovereign debt crisis, an E. Coli outbreak in Europe, civil unrest in the Middle East, talks about the United States "fiscal cliff", as well as continally high unemployment rates.

Chris Janota | 1518 119th St. Suite 405, Whiting, IN 46394 | p: 219.627.1094 | www.envoywealthmanagement.com

Mark Twain once said, "The coldest winter I ever spent was a summer in San Francisco". We believe that is because he did not experience the summer of 2011.That summer, the stock market exhibited an icy chill that would have made San Francisco seem like Phoenix in the middle of August.

If not careful, chills in the investment climate could lead to what we call Emotional Market Timing.

We define Emotional Market Timing as when an investor, nervous about domestic, world, or market events, in essence panics and engages in an almost spontaneous act of selling their investments.

While every market is different, and past performance is never an indication of future results, in our view, Emotional Market Timing may not be the ideal strategy to use when dealing with stock market fear because it centers on alarm rather than conscious rational action.

We feel the key to grasping the danger of Emotional Market Timing lies in the understanding that in our view markets will generally rise and fall in cycles, typically moving in large chunks and many times in what we consider short time periods.

If an investor employs Emotional Market Timing and panics out of the market, which in essence locks in their losses, they may find themselves sitting on the sidelines as the market is moving back up with nothing but their losses and what is left of their investment.

In this edition of the Emotional Investor Series, we will look at the summer of 2011, the events that were making headlines, and their effect on the markets.

Although, the stock market seemed to be recovering from the low it hit in 2009, there remained what seemed to us to be uneasiness about the state of domestic and world affairs.

There were fears of "contagion" during the European sovereign debt crisis with Portugal, Ireland, Italy, Greece, and Spain creating grave concern. France added to the worry when the rating agencies discussed the possible of downgrading its debt. Late spring to early summer, an E. Coli outbreak killed dozens in Europe, leaving many others sick and fear ran high of the outbreak spreading. The Middle East was in the throes of civil unrest. Talks about the United States "fiscal cliff" began to surface and unemployment continued to grow, reaching 9% by the summertime.

This uneasiness turned to what seemed like near panic when on Friday, August 5, 2011, at 8:13 p.m., Standard & Poors announced that they were downgrading the credit rating of the United States. Following that downgrade, on Monday, August 8, 2011, the S&P 500 lost 6.6% that day alone.[1]

All told, the S&P 500, which stood at a post Financial Crisis high of 1363.61 on April 29, 2011, now stood at 1099.23 at the close on October 3, 2011, a loss of – 18.64%. There was no question that it had been a rough summer for the stock market.[1]

Remember, in our view markets will generally rise and fall in cycles, typically moving in large chunks and many times in what we consider short time periods.

From October 3, 2011 through December 31, 2011, the S&P 500 went from 1099.23 to 1257.60, a gain of 15.08% including dividends.[1] This three month gain happened despite the fact that fears of contagion in Europe persisted, the fiscal cliff continued to plague this country, the United States debt remained downgraded, unemployment remained high and conditions in the Middle East were unstable.

Hypothetically, had you placed $100,000 in an investment that was able to generate the returns of the S&P 500 on April 29, 2011, which was the high for the stock market that year, and then sold your investments due to Emotional Market Timing at the market's lowest point which was on October 3, 2011, you would have locked in losses of $18,640, and you would have been sitting on the sidelines with only $81,360 of your investment left while the market made another large move over the next 16 weeks.[1]

Remarkably, the S&P 500 would gain an additional 12.59% in the first quarter of 2012.[1] In fact, had you made that hypothetical investment at the market's high on April 29, 2011, you would have regained all of your losses by February 3, 2012, just 16 weeks from when the market hit its 2011 low on October 3rd.[1]

This is what we mean when we state that we believe that markets will generally rise and fall in cycles, typically moving in large chunks and many times in what we consider to be short time periods.

On a longer-term basis, as you can see from this chart below, if you had placed your money in a investment that was able to generate the returns of the S&P 500, you would have been well-rewarded for avoiding Emotional Market Timing.

Despite the market losing a -18.64% return in the summer of 2011, one year later you would have actually seen positive return of 5.16%.[1]

As you continue down this chart, you see that by April 28, 2015, you would have had a 14.02% annual compounded rate of return, earning $69,014 for every $100,000 invested.[1]

| Date After Initial Investment of April 29, 2011 | Annual Compounded Rate of Return[1] | Value of Hypothetical $100,000 Investment[(1)] | Gain or Loss for Every $100,000 Invested |
|---|---|---|---|
| October 3, 2011 | -18.64% [(1)] | $81,360 | -$18,840 |
| April 27, 2012 | 5.16% | $105,160 | $5,160 |
| April 29, 2013 | 10.51% | $122,124 | $22,124 |
| April 29, 2014 | 13.54% | $146.368 | $43,368 |
| April 28, 2015 | 14.02% | $169,014 | $69,014 |

It is important to stress that each market will be different in severity and length of time of a downturn. However, historic evidence may suggest that employing Emotional Market Timing could lead to poor results.

Clearly, events similar to the ones making headlines during the summer of 2011 typically magnify the volatility in the markets. It is natural for investors to get nervous.

However, because the markets will generally rise and fall in cycles, typically moving in large chunks and many times in what we consider to be short time periods, Emotional Market Timing may not be a prudent strategy to employ.

**For more information on the Calm, Steady & Common Sense Series or any of the Bull and Bear white papers or presentations, please call us at (219) 627-1094.**

---

**Disclosures**

[1]Source: Bloomberg and Dunham & Associates

*Investments are subject to risks, including possible loss of principal. Investors should consider the investment objectives, risk factors and expenses of any investment carefully before investing. Diversification does not guarantee profit or ensure against loss.*

The S&P 500, or the Standard & Poor's 500, is a stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 Index components and their weightings are determined by S&P Dow Jones Indices. It differs from other U.S. stock market indices, such as the Dow Jones Industrial Average or the Nasdaq Composite index, because of its diverse constituency and weighting methodology. It is one of the most commonly followed equity indices, and many consider it one of the best representations of the U.S. stock market, and a bellwether for the U.S. economy. You cannot invest directly in an index.

All examples are hypothetical and are for illustrative purposes only. We encourage you to seek personalized advice from qualified professionals regarding all personal finance issues. The solution for an investor depends on their and their family's unique circumstances and objectives.

Information contained in the materials that are included in the Bull & Bear in a Cloud℠ Marketing Campaign is believed to be from reliable sources, but no representations or guarantees are made as to the accuracy or completeness of information. This document is provided for informational purposes only and should not be construed as individual investment advice.



Chris Janota | 1518 119th St. Suite 405, Whiting, IN 46394 | p: 219.627.1094 | www.envoywealthmanagement.com