



**STRUCTURED
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In An Unstructured World

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STRATEGY REPORT

L O R I N G | W A R D

Breaking News: It's Not Different This Time

by **Joni Clark, CFA, CFP®**, Chief Investment Strategist, Loring Ward

There are no guarantees, but throughout our history investors have been rewarded for long-term investing in stocks, for staying the course through short-term noise, and for being prudently diversified.

As investors, we naturally and rightfully take an interest in the state of the economy and the current market environment. And the financial media is swift to oblige with an abundance of information reported on a real time basis through financial network television programs, financial websites, radio, newspapers, magazines, and the like.

The financial media attempts to diagnose the daily movements in the stock market and changes in interest rates, interpret the underlying meaning of the latest economic reports and be the first to cover “breaking” financial news and statistics. All this, and the need to stand out in a crowded field, can unwittingly lead the media to exaggerate, dramatize or overly simplify a story which, in turn, can lead investors to overreact, both positively and negatively.

It is normal to feel anxiety during economic downturns or market turmoil, but emotional reactions to financial news are seldom rational and can lead to imprudent investment decisions.

With all of the negative headlines in today’s financial news — high oil prices, increasing inflation, the potential for recession, continued credit crises and bank failures, falling home prices — many investors cannot help but be disheartened and even begin to wonder: should I take my losses, sell all of my investments and hold cash for awhile? Or with the current bank troubles...maybe a mattress would be a better solution?

Investors generally understand that the economy and markets are cyclical and will experience periods of prosperity and decline, with a long-term tendency towards prosperity. We also know that the precise timing of these cycles cannot be predicted with any consistency or accuracy, and for most investors, any attempt to time the markets is unlikely to lead to superior results over the long-term. So why are so many investors inclined to react to short-term market movements and make investment decisions based on financial news? Why do investors continue to believe each time that it’s different *this* time, that the market may not be able to recover from this downturn?

While economic and market statistics are ever changing, history is the best guide we have to educate us on the volatility that is inherent in investing. Whether it is the Great Depression, World War II, Vietnam, the ‘70s malaise, 1987, the bursting of the tech bubble or today, the fundamental principles still apply. Diversification to the relationship between risk and reward to the power of time are central tenets of successful investing that are rooted in the very heart of free markets and capitalism.

The media may accurately report news and statistics as unprecedented, but it is more often the finer details of an event or the manner in which the statistics are presented that is different, rather than the story itself. To illustrate this point, let’s take a look through time by reviewing TIME magazine cover stories from the last 35 years that highlight intriguing similarities to



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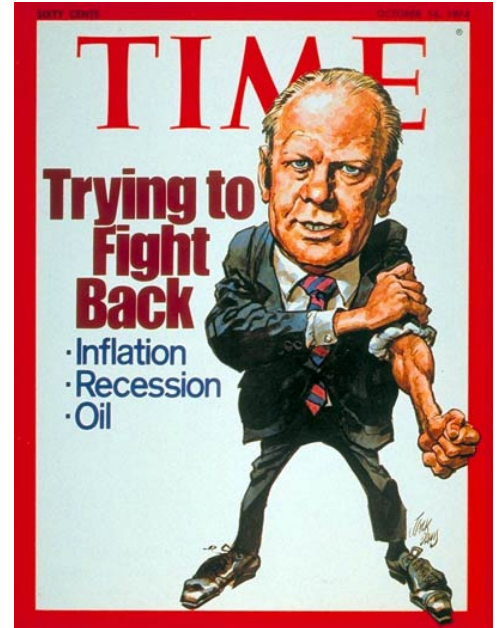
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today's situation. With the benefit of hindsight, you will also see that these stories would have offered absolutely no benefit to investors using them for investment guidance.

The 1970s

The TIME cover from October 14, 1974 features a caricature of President Ford and a story on **"Ford's Plan: (Mostly) Modest Proposals"**: *"President Ford last week rolled up his sleeves to confront the gritty economic and political realities of devastating inflation, lengthening recession and a looming international crisis over oil prices."*

Although we are dealing with many of these same issues today, our current situation is not nearly as grim as the stark realities of 1974. Living costs were increasing at a compound annual rate of 16.8% and the Dow Jones Industrial Average was at a twelve-year low.

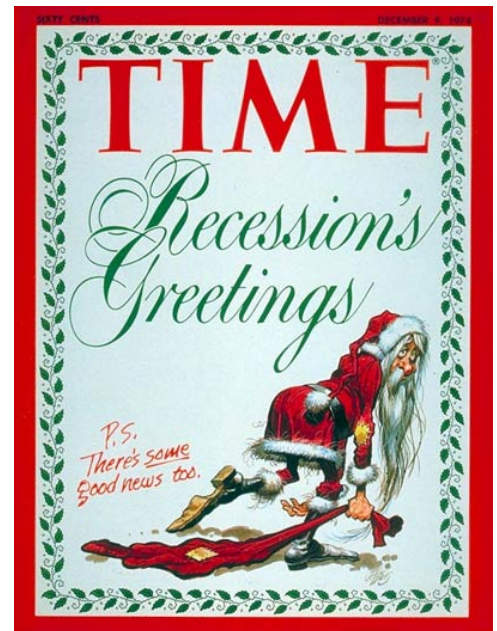


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By December, the U.S. was bracing for **"Gloomy Holidays — and Worse Ahead"** as reported in TIME's cover story on December 9, 1974.

"Not for many years has a Christmas season begun with so many tidings of spreading discomfort and lack of joy about the U.S. economy. Already racked by a devastating double-digit inflation, the nation is now also plunging deeper into a recession that seems to be the longest and could be the most severe since World War II."

Despite TIME's grim predictions, December of 1974 actually marked a turning point for the U.S. stock market. The S&P 500 Index soared the following year, returning 37.2% in 1975 and then up again by 23.9% in 1976.



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By September 12, 1977, TIME had recovered its optimism with a cover story, slangily titled, **“Housing: It’s Oversight.”**

The [American] dream was dented a bit during the last recession; mortgage money became so scarce that relatively few new houses were built. But the big and mercurial housing industry, which fell harder than almost any other business during the slump, is coming on strong in the current economic recovery.”

As Yogi Berra once remarked, “It’s déjà vu all over again.” Is it just possible we’ve seen today’s mortgage credit and housing industry cycle before?

Inflation remained a headline issue until the early 1980s but the stock markets continued to prosper.



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The 1980s

The TIME cover story on April 21, 1980, **“Capitalism: Is it Working? Of Course but...”** portrayed an economy beset on all sides.

“In an age of economic anxiety, real and rising concerns about whether free enterprise can surmount the problems of inflation, energy and productivity. The relentless daily pounding of dismal news drives deeper the public’s conviction that the economy is in a profound and morose crisis.”

“Week after week, interest rates crack new records; home owners face 17% mortgages Energy, the oxygen of industrial life, has become so costly and politically controlled that the U.S. can no longer be certain of enough fuel to keep its factories running and homes heated.”

With these headlines, an investor probably would not have expected an annual return of 32.4% for the S&P 500 Index in 1980.



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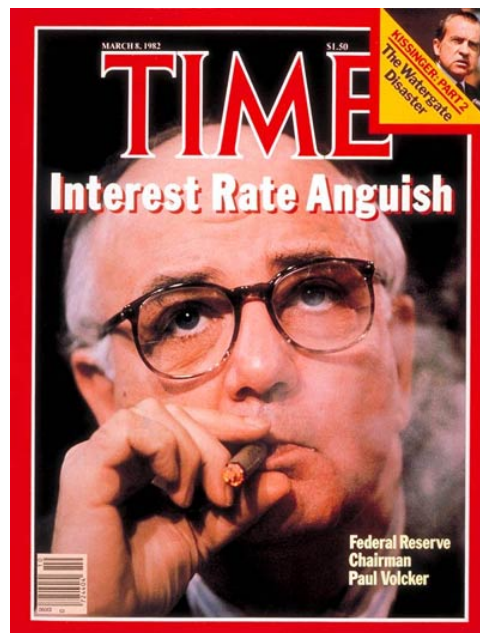
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Although the market continued its march upward in the early 1980s, America's "*Interest Rate Anguish*" continued.

The TIME cover story on March 8, 1982, "*Paying More for Money*" reported:

"Expensive and scarce money has begun driving homebuilders, auto dealers and businessmen from every walk of life out of business, and in such numbers that bankruptcies around the country are beginning to rival those of the Great Depression."



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By December 3, 1984, America's banks were "*Awash in Troubles.*"

The cover story, "*Banking Takes a Beating*" detailed the fallout from the deregulation of banks and the increasingly competitive landscape.

"Bankers now face their most strenuous survival test since the Great Depression....Because of poor management, overzealous lending and some bad luck, commercial bank profits have been battered."

"The clearest example of the industry's chaos is the growing string of financial failures... Government regulators [have] put more than 800 of the 15,000 U.S. banks on their 'problem list'... American consumers are increasingly concerned about the safety of their money in the bank."



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The banking woes are yet another striking parallel with the financial news stories of today. As Mark Twain once observed, "History does not repeat itself, but it does rhyme."



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Despite all the bad news and reports of high borrowing rates choking consumers and businesses as well as the banking failures of the early 1980s, the U.S. economy and stock markets continued to prosper. The S&P 500 Index climbed nearly 325% from January 1980 through September of 1987.

But then came **"The Crash"** on October 19, 1987...

TIME's November 2, 1987 cover story was almost hysterical: **"Panic Grips the Globe:"**

"The U.S....could not go on forever spending more than it would tax itself to pay for, buying more overseas than it could earn from foreign sales, and borrowing more abroad than it could easily repay. There had to be a day of reckoning, and it could unhinge the whole world economy. On all the world's stock exchanges, prices had leaped up too far, too fast, to be sustained."

"Then trading began in New York, and the unimaginable happened: a collapse on a scale never seen before--no, not even in 1929. Prices went down, down, down, swiftly wiping out an entire year's spectacular gains."

"By the time the 4 p.m. closing bell rang at the New York Stock Exchange on what instantly became known as Black Monday, the Dow Jones Industrial average had plunged 508 points, or an incredible 22.6%..."almost double the record 12.8% fall on October 28, 1929."

But stay tuned...because the market recovered almost half of the losses of Black Monday within days of the crash and the Dow Jones Industrial Average ended the year in positive territory with an annual return of 2.3%. Not as horrific an outcome as one may have expected on October 19 from a "global panic."

The S&P 500 Index grew four-fold during the 80s, generating an annualized return of 17.6%.



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The 1990s

But global *"High Anxiety"* resumed in 1990 in response to the political and economic environment. The U.S. was on the brink of recession and war. As the TIME cover proclaimed on October 15, 1990, the *"looming recession, government paralysis and the threat of war are giving Americans a case of the jitters."*

And as the cover article entitled *"All Shook Up"* reported:

"What a difference an invasion makes.... From stock markets to supermarkets, high anxiety rule the day. Iraq's march into Kuwait on August 2 has proved to be the catalyst that brought the world's economic weakness to bear all at once: America's profligate spending, Japan's speculative fever, Eastern Europe's huge renovation bill, the Third World's monumental debt. Now the specter of war, rapacious oil prices and a far-reaching recession haunts political and business leaders everywhere..."

"War rumors have whipsawed the world's stock markets, heightening the mood of impending economic disaster.... Among U.S. companies and consumers, the weakening economy has contributed to a national sense of uncertainty and malaise."

"Other markets have been hit even harder. In the shadow of Tokyo's debacle, Taiwan's exchange has fallen 80% since February, a collapse so sharp that it has prompted several local investors to commit suicide."

The U.S. did ultimately dip into recession territory (officially defined as six months of economic contraction) for a short time, and the markets suffered a modest decline in 1990. The S&P 500 Index lost 3.1% that year, but it was more than offset by 30.4% return in 1991.

By the mid-1990s, the economy was going strong. As we now know, the U.S. had embarked on a record long economic expansion, and the S&P 500 Index generated an annualized return of 28.6% from January 1995 through the end of the decade...with a cumulative return of 251%.

But there were a few hiccups along the way with the Asian Financial Crisis in 1997 and the Russian Devaluation and Financial Crisis in 1998 (and the associated failure of Long-term Capital Management) that left investors wondering if the long boom was over.



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The September 14, 1998 TIME cover story, *“What a Drag,”* asked the question on every investor’s mind:

“Should they pull their money out of stocks? Does the market slide foretell a recession? How is any of this bad news possible when the U.S. economy seems so strong, with the lowest unemployment, inflation and interest rates seen in a generation?”

With the benefit of hindsight, we have the answers. The long boom wasn’t over — at least not yet. The S&P 500 Index returned 28.6% in 1998 and was up over 21% in 1999.

It turned out to be a very prosperous decade for the stock markets with the S&P 500 Index generating an annualized return of 18.2%, or 433% cumulative, from January 1990 through the end of 1999.

The 2000s

We even made it through the turn of the century without a hitch despite the widespread speculation about potential for Y2K-related disasters.

But then the bear finally showed up...and stayed. The S&P 500 Index declined by more than 40% from the beginning of 2000 through February of 2003.

The TIME cover story on March 26, 2001 entitled *“Zap”* presented a surprisingly balanced picture:

“Despite awful headlines and a palpable fear, the average diversified stock fund has fallen a manageable 13% in the past year... Job creation is growing at a faster pace this year than in the final months of 2000. Inflation is tame, and interest rates are falling fast, lowering the cost of mortgages and car loans.”

“Still, for those of you who got creamed in the stock market last week, here’s a little more comfort: you’ve got company. Lots of it... Vaporized stock-market wealth is at \$4 trillion and counting. The losses have engendered one of the fastest economic decelerations ever —”



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*“The worry factor is not to be underplayed. Recessions and bear markets are as much about psychology as fundamentals, which is precisely why the stock market — unable to find something it can believe in — has worked up such a sweat. **To that extent, the media may be fueling the pessimism.**”*

There is probably no better place to end this story and close with a happy ending. The S&P 500 Index eventually bounced back from its lows in early 2003 and produced an annualized return of 14.3% (more than 90% cumulative) from March of 2003 through the end of 2007.

We don't yet know how the next chapter of the economic cycle or the markets ups and downs will play out. The headlines have not been good this year.

But after reviewing the dreadful news from the last 35 years, you may begin to feel a little bit better about our current situation. Especially since the U.S. stock market, as measured by the S&P 500 Index, prospered greatly over the last 35 years, despite the profusion of bad news, generating a cumulative return of more than 3,725%!

If you'd had the courage and conviction back in the early 70s to ignore Watergate, the oil crisis, Vietnam and inflation and invested \$100,000 in the S&P 500...and then if you'd taken a long-term perspective and not worried too much about the S&L crisis, the 1987 “panic,” the tech bubble and all the other speed bumps along the way, you'd now have more than \$3,800,000.

So, remain invested. There are no guarantees, but throughout our history investors have been rewarded for long-term investing in stocks, for staying the course through short-term noise, and for being prudently diversified. Looking back at all that happened over the last 35 years, we have some breaking news for you: it's not different this time. 