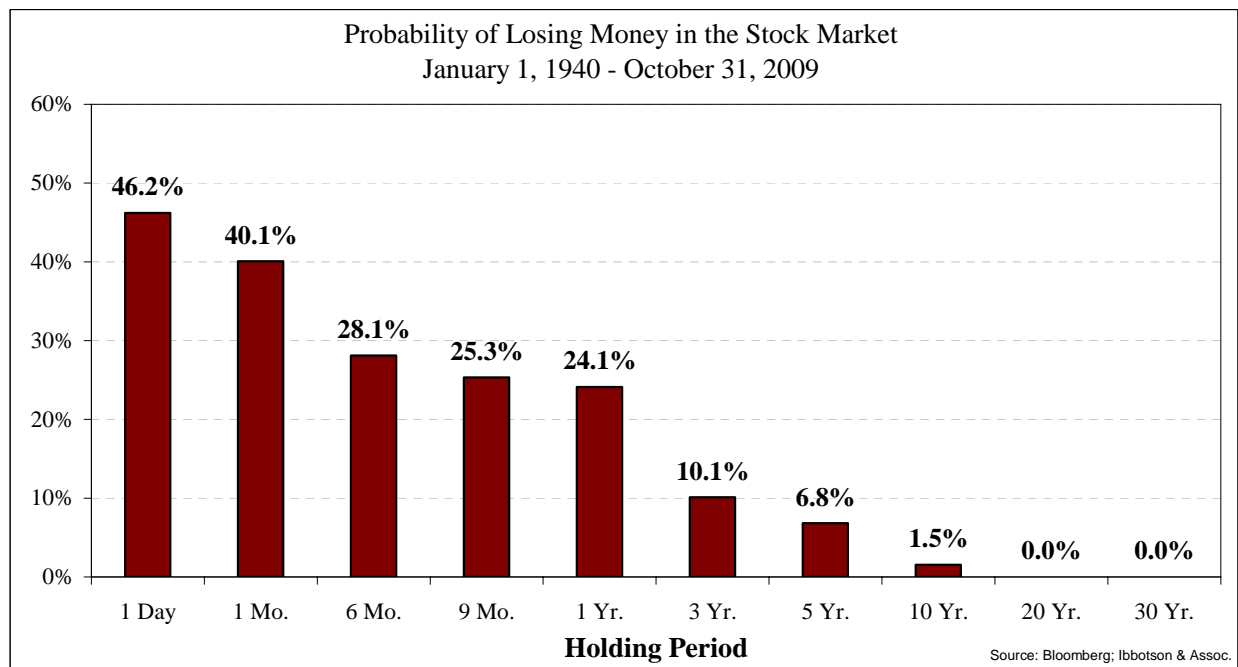


November 2009

Market Commentary: Time in the Market vs. Timing the Market

With the sharp rebound in the U.S. equity markets since their nadir earlier this year, many clients have asked the question, “Is the stock market getting ahead of itself and if so, shouldn’t we scale back our exposure to equities?” These questions are akin to “Can we time the market?” Indeed, since its March 9 low, the market (as measured by the S&P 500) is up over 50 percent through October 31. While these questions are understandable, we offer a slightly different answer than one might expect. In this month’s Market Commentary, we offer an alternative perspective on the prospect of gains in the stock market and why we believe the likelihood of success in these endeavors will depend not on timing the market, but on *time in the market*.

The chart below shows the percentage of time that an investor in the S&P 500 lost money over various holding periods from 1940-2009.



An investor lost money nearly 50 percent of the time if he/she only invested in the stock market on any particular day. As you can see, however, the longer one remains invested in the stock market, the better his/her chances are of making (or not losing) money. In fact, as the chart shows, there was not a single 20- or 30-year holding period during which an investor lost money.

Further consideration should be given to the 10-year return falling into negative territory in November of last year and remaining in negative territory through October of this year. As you can see in the chart above, over nearly 70 years of market history, this has happened less than two percent of the time. As a consequence of this rare event many investors are looking in the rear-view mirror and wondering if stocks really are a suitable investment today. While a negative 10-year total return is a rare and unnerving occurrence, the question about stocks shouldn't be, "What have stocks done?" but rather, "What will stocks do?" It is anyone's *guess* as to what stocks will do over the next 6 or 12 months. Over the long haul, though, we believe they will do well given current market valuations and an assumption of continued strength in corporate profitability.

Further Evidence Against Timing the Market

We wrote to you in our August 2008 Research Perspective that missing the best days in the equity markets drastically reduces total wealth accumulated over long periods of time. The table below shows the growth of one dollar over the nearly 70-year period from January 1, 1940 to October 31, 2009. As you can see, your dollar grew to over \$80 if you remained invested throughout the period. Bear in mind, this calculation does not reflect the reinvestment of dividends. Dividend reinvestment, on average, will contribute approximately four percent of return in addition to price appreciation. While four percent may not seem like much, thanks to the eighth wonder of the world, compound interest, one dollar invested on January 1, 1940 would have grown to \$1,192 by the end of October 2009 when dividends were reinvested!

S&P 500 Price Index From 1/1/1940 to 10/31/2009		
	<u>Growth of</u> <u>\$1</u>	<u>Annualized Return (excluding</u> <u>reinvestment of dividends)</u>
continually invested	\$ 83.16	6.5%
missed 10 best days	\$ 38.81	5.4%
missed 25 best days	\$ 18.48	4.3%
missed 50 best days	\$ 6.55	2.7%

Source: Bloomberg

Over the period since 1940, the stock market has been open for trading for 17,454 days. If you happened to be out of the market for the ten best trading days (0.06 percent of the time), your dollar would have only grown to \$39. If you were out of the market for the 25 best days, today you would have a meager \$18. Lastly, if you were out of the market for the 50 best days from January 1, 1940 to October 31, 2009, you would have about \$6.50 today.

In summary, we simply do not attempt to time the market. We invest for the long-term and view market timing to be a risky proposition. The sharp declines experienced in the stock market last fall and earlier this year have caused many to rethink their asset allocation. If you feel you need to make an allocation change, please contact one of our consulting services professionals. We remain committed to managing your assets with the long-term in mind, working diligently to find valuable investments today which, in our opinion, should grow your wealth well into the future.

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