Quality Asset Management

Grow Your Wealth with Peace of Mind

Can Severe Market Declines Make you Rich?

By Gil Hanoch, December 1, 2004

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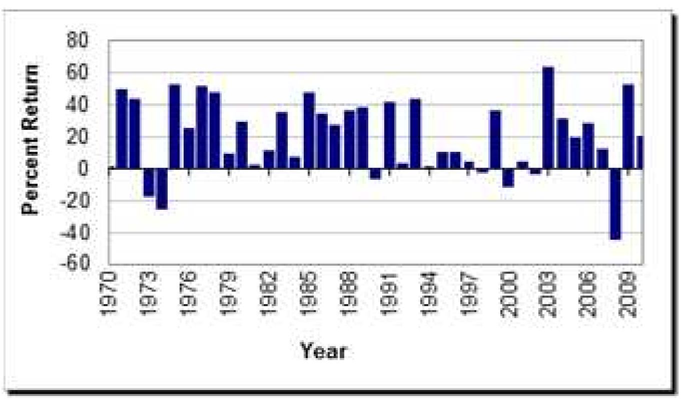
Much more than you think! If you invest in the stock market after a severe market decline, whether you are already invested or not, you can achieve returns that are 3 to 4 times larger than the average returns of your investments.

Let's look at the behavior of a globally diversified stock portfolio (Long-Term Component by Quality Asset Management) after the three longest market declines in the past 41 years. In all cases the returns were over 50% (see the table below). I call these two periods the **Biggest Sales** of recent history - stocks are offered to you at a large discount.

Decline Period	Major Recovery Duration	Returns
4/1973-12/1974	5 months	54%
4/2000-3/2003	12 months	86%
11/2007-2/2009	7 months	84%

The chart below presents the annual returns of the portfolio since 1970:



But how do you know when to buy? Since history shows that investors, including myself, are usually incapable of predicting the future of the stock market, the answer is simple: **immediately**. Note also that if you want to predict the bottom of the decline, you better be exceptionally exact, because the biggest returns usually come quickly, as seen in the following table.

Decline Period	Initial Recovery Duration	Returns
4/1973-12/1974	1 months	24%
4/2000-3/2003	2 months	21%
11/2007-2/2009	2 months	31%

If you missed the bottom by one or two months, you missed a big portion of the gains. If you bought many stocks exactly on March 2009, knowing that this is the bottom, **and** you think you can repeat this prediction over and over in the future, **and** you want to bet your life's savings on this, be my guest. But if you are like most of us, don't try this again - you will miss the bottom and a lot of sleep.

How can you use this information practically? When the next severe market decline comes along, if you happen to have income or other money that you do not expect to need for several years, put a smile on your face, and the money in a diversified stock portfolio.

For as long as you are making more than you are spending, your biggest wish for your investments should be a severe market decline, or, more appropriately named, a very big sale.

Note that you should keep enough money outside the stock market at all times to ride these severe declines. They occurred before and they will happen again. Depending on your level of diversification, stability of income and additional factors, you might need to keep several years of living expenses outside the stock market. The decision about this amount is critical to keep you going while your investments go through these temporary declines that sometimes last for a few years.

A note about the chosen portfolio: the point of this article is strongest when investing in a globally diversified portfolio like the one presented in this article. If you look at the S&P 500, the returns after severe declines are also impressive, but it takes much longer for the portfolio to recover because of the limited diversification.