

# Quality Asset Management

Grow Your Wealth with Peace of Mind

## Can Severe Market Declines Make you Rich?

By Gil Hanoach, December 1, 2004

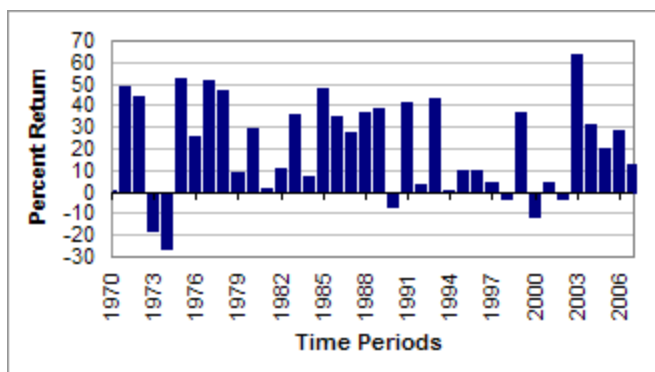
Updated Data June, 2008

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 two longest market declines in the past 37 years. In both 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	Recovery Duration	Returns
4/1973-12/1974	5 months	55%
1/2000-3/2003	12 months	86%

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	25%
4/2000-3/2003	2 months	20%

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 2003, 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.

Past performance may not be indicative of future results. Simulated data was used for periods prior to the inception of mutual funds (see [Performance Data Disclosure](http://www.qualityasset.com/disclosure.htm) at <http://www.qualityasset.com/disclosure.htm>). Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this article, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Note that services are limited to investment advice and do not include financial planning and/or non-investment related consultation services. You should not assume that any discussion or information contained in this article serves as the receipt of, or as a substitute for, personalized investment advice from Quality Asset Management. If you have any questions regarding the applicability of any specific issue discussed above to your individual situation, you are encouraged to consult with the professional advisor of your choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.