

# Don't Panic:

## And *don't* go to cash!

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### RECESSION?

Polling stock investors in January 2008 would surely reveal that many are apprehensive about a recession and its effects on the stock markets. While recessions are certainly not comfortable to endure, they are a natural part of the economic cycle and eventually end, leading to periods of expansion. Keep in mind that recessionary periods are often shorter in duration than the expansionary time frames that follow. According to the National Bureau of Economic Research (NBER) there have been 32 recessions since 1854 that have lasted an average of 17 months. However, recessions since 1945 have averaged only 10 months in duration and the expansionary periods that followed averaged 57 months.

### SO WHAT HAPPENS TO STOCKS?

History has shown us that more often than not, the anticipation of a recession tends to depress stock prices more than the actual recessionary period. If you examine the five recession periods since Fenimore has been in business over the last four decades, you will observe that recessions don't always correlate to drops in stock prices (of the S&P 500 Index). In three of those five periods, stocks actually increased in value during the recession. In fact, following the official end of the past five recessions, stocks increased significantly in the ensuing 12 months in all periods except March 2001 through November 2001. This data is obviously all 20/20 hindsight but raises a valid point. You don't know if stocks will go up or down during and/or after the potential recession or when

Recessionary Period	Return During Recession	Total Return 12 Months Following Official End of Recession
November 1973-March 1975	-12.20%	22.64%
January 1980-July 1980	10.36%	14.65%
July 1981-November 1982	13.59%	26.23%
July 1990-March 1991	4.31%	12.09%
March 2001-November 2001	-1.80%	-19.80%
Source: National Bureau of Economics	Source: Bloomberg	Source: Bloomberg

the end actually occurs. This makes timing the market literally impossible and reinforces the philosophy of "Stay the course!"

### "IT'S TIME IN THE MARKET, NOT TIMING THE MARKET."

Vain attempts to time the market and avoid stock market declines as propagated by recessionary fears are akin to earning a steady salary at a casino — it just doesn't work. If you pulled your capital out of the market and missed just 10 of the best days of performance in the S&P 500 Index over the last 10 years, your annualized return (without dividends reinvested) would have gone from positive 4.2% being fully invested, to negative -0.5%. And the more "best" days you missed, the worse your

Period of Investment	Average Annual Return Price Appreciation Only
Fully Invested	4.20%
Miss the 10 Best Days	-0.50%
Miss the 20 Best Days	-4.10%
Miss the 30 Best Days	-7.20%
Miss the 40 Best Days	-9.80%
<b>Opportunity Cost of Missing the Market</b>	
10-Year Annualized Returns of the S&P 500 Index (without dividends reinvested)	

return would have been. The chart above illustrates the opportunity cost for missing the best return days in the S&P 500 Index for the 10 years ending 12/31/2007.

We obviously cannot predict if or how long a recession will occur. We do know that recessionary periods eventually end. And being fully invested, even through a potential downturn, yields better investment results over the long term than attempting to time the decline, remove capital from the stock market and get back in when "things are better." While recessionary fears may continue to depress stock prices in the short term, they can also produce great buying opportunities. To quote Sir John Templeton, "You buy stocks in periods of maximum pessimism and sell stocks during periods of maximum optimism." ❄️