Bad Hair Days

In the 1992 movie "Buffy the Vampire Slayer", Buffy (played by Kristy Swanson) was heard to say to the one-armed vampire (played by Paul Reubens, of Pee Wee fame) "I'm fine, but you're obviously having a bad hair day." And that is what is considered the origin of a phrase that when extended, means having a day where everything goes wrong.

For the first quarter of 2009, we saw many things go wrong. Stocks traded to a 12 ½ year low on March 9th. January was the worst performing January in history. Jobless claims rose to a 26 year high. Ultimately, even with the benefit of a 23% up move over 13 days during the last month of the quarter, the 13.3% drop in the Dow over the first three months of this year was the worst start since 1939.

If we diligently search, we can find some highlights from the first quarter of 2009. March was the first positive month in seven. The up-move off the lows in March was extremely powerful, as is typical in a bear market. Interest rates are still historically low and mortgage applications jumped during the quarter. Consumer spending was actually up during January and February. The cash in brokerage and bank accounts is near all-time highs in relation to the market capitalization of stocks. Finally, profit comparisons going forward will be versus much easier numbers as the recession enters its second year.

What is an investor to do? Consider this, if the thought of "bad hair days" pushes you to get out of stocks, when do you get back in? Standard & Poor's recently did a study of the twenty year period ending on 11/28/08. Based on a $50,000 investment, if you missed the best 20 days because of bad hair, but were invested for the approximately 4800 other days, your annualized return (S&P 500) would be 2.91% as compared to 8.41%. Put another way, your $50,000 would have grown to $88,740 as compared to $251,395 if you had not missed any days. The question is whether the $162,655 difference is significant for those with a long time horizon, and the question is whether you will know when to get in again once you are out. We believe that, although we are cautious in the short term, now is not the time to exit investments. We also believe that asset allocation is the key, and that now is the time to review your risk/reward scenario and position yourself so that your hair is perfect.

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