Print This Chart, Hang It On A Wall

SYNOPSIS

- The market's response to a crisis has been rather favorable over time to a balanced investment strategy.
- Diversification is the golden rule of investing, and this discipline often requires investors to remain allocated to asset classes that appear unattractive at times.
- The next time a crisis hits the headlines, compare it to the chart below.

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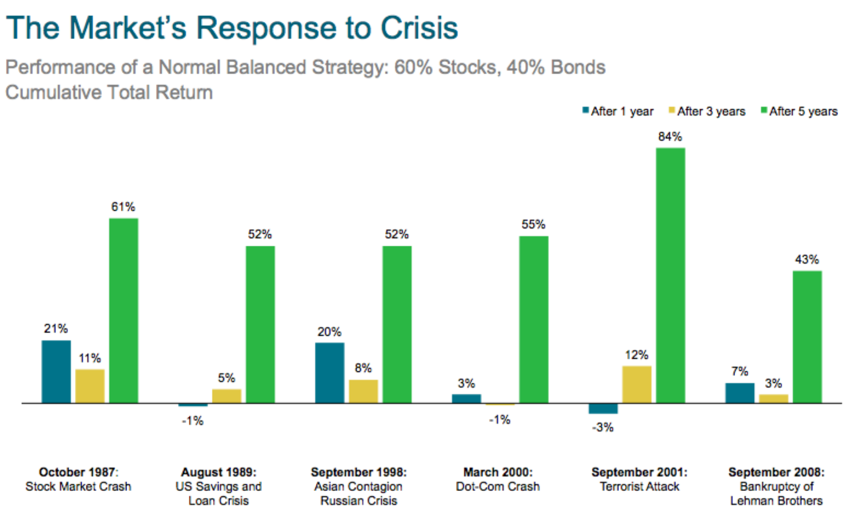
History As A Guide

Dimensional Fund Advisors is an investment management company filled with some of the smartest and most respected financial minds in modern history.

Their research team compiled data to produce the chart below, which examines the performance of a balanced strategy of stocks and bonds after each major crisis over the past thirty years.



Source: Dimensional Funds

The bars indicate the performance of a balanced portfolio of 60% stocks and 40% bonds after specific time periods for each crisis. For example, after the bankruptcy of Lehman Brothers and the depths of the financial crisis, this portfolio increased 7% (blue bar) one year later, 3% (yellow bar) three years later, and 43% (green bar) five years later.

Furthermore, the average one-year performance after each crisis has been a respectable 7.8 percent, the three-year average at 6.3 percent, and the five-year average at a staggering 57.8 percent.

Simply put, the market's response to a crisis has been rather favorable to those disciplined investors who remained (1) diversified and (2) patient.

Hang It On A Wall

Print this chart, frame it, and hang it on a wall next to the television. Then download a copy to replace the background image on any computer used to read websites and emails offering advice on why gold and silver are the only way to prepare for the looming financial Armageddon.

That way, the next time what appears to be a major crisis begins to ignite fear and panic, take a look at the colored bars and ask yourself a very simple question:

"Is this current crisis worse than anything on this chart?"

Let's apply this newfound rule of thumb to a few of the panic attacks that rocked global financial markets over the past twelve months:

- **Brexit**: Is the result of a referendum that's not even legally binding a scarier situation than the Dot-Com crash back in 2000?
- **China**: Is a slowing Chinese economy that is still growing at twice the rate as the U.S. enough to inflict as much damage as the horrific terrorist attacks in September 2001?
- **Greece**: Is the risk of default from a country that represents 0.7% of world GDP worse than the financial crisis of 2008?
- **Commodities**: Will cheap gasoline and lower electricity prices inflict more damage to investors' portfolios than Black Monday, when the stock market fell 22% in a single day?
- **Rising Interest Rates**: Will the Fed's response to improving economic conditions inject an equal or greater amount of risk into the banking sector as when the Savings & Loan crisis almost took down some of the largest firms on Wall Street?

If we assume the answer is "no" to each of these examples, then this chart would have been a powerful tool to avoid the emotional turmoil of selling into the volatility over the past year.

Going forward, use this chart as a point of reference. If the "panic du jour" seems less scary than what's listed in this chart, then it's likely that a balanced investment strategy will do just fine. For those incredibly few instances when it seems worse, just remember that the market has recovered every single time from every major crisis thrown its way because the world just does not end all that often.

Lastly, it's important to note why this balanced strategy performed so well during turmoil. The returns had nothing to do with getting out of the market at just the right time and then back in just as the madness subsided.

The success was due to preparation, not timing, by building a well-diversified portfolio designed to withstand turbulence and profit over the long run. In doing so, investors never have to worry about putting their financial future in the hands of a crystal ball.

Sincerely,

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