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The Savvy Investor
What To Do When the Market Looks Bad

When the stock market looks terrible, it is a good time to remember the following:

1. **The market will look terrible at times and you will feel like tossing in the towel. Don't.**
2. **Systematically adding a small amount to your account every month can significantly increase your net worth.** In the following example, an initial investment of $7,750 grew to $81,000 after 12 years with no additional contributions. By, adding $100 per month for 12 years, the value after 12 years was, $151,000, almost doubling the total value.

Here's an example illustrating these two points. It is extracted from the February 2000 Legg Mason market letter.

Back on August 25, 1987, the Dow Jones Industrial average peaked at 2,746 points. Two months later on October 19, 1987, it was at 1,739. That's a drop of 37%. During that same period, the Legg Mason Value Trust fund lost 23%. Therefore, a $10,000 investment would have been worth $7,750.

Discouraged with an investment that returned a net loss of 23%, an investor could have made one of several choices:

1. Sell the mutual fund and put the money into a fixed rate of return.
2. Hold the mutual on the belief that it was a long-term investment and it will regain value.
3. Hold the mutual fund and buy more shares at the current price or every month, believing that this is a good investment opportunity.

Let's see how each scenario would have turned out by December 31, 1999, approximately 12 years:

1. $7,750 in the bank from October 31, 1987 to December 31, 1999, at hypothetical rates of return would have been worth:
   $14,866 at 5.5%
   $17,652 at 7.0%
   $22,113 at 9.0%
2. Keeping your money in the mutual fund, it would have grown to $81,348, an average annual return of 21.3%
3. **Had you kept your money in the mutual fund (as in No. 2 above) and added $100 every month, you would have invested an additional $14,600 and your shares would be worth over $155,000 – about twice the value of just letting the investment grow without any additional investments.** The average annual return would have increased to 22.5%.

Past performance is no guarantee of future results. But the message is clear. **If you have a long-term investment objective, hang in there even when things look their worst.**

Want to learn more about successful investing? Please contact us.