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History Rhymes

April 2011

“History Doesn't Repeat Itself, But It Does Rhyme” - Mark Twain

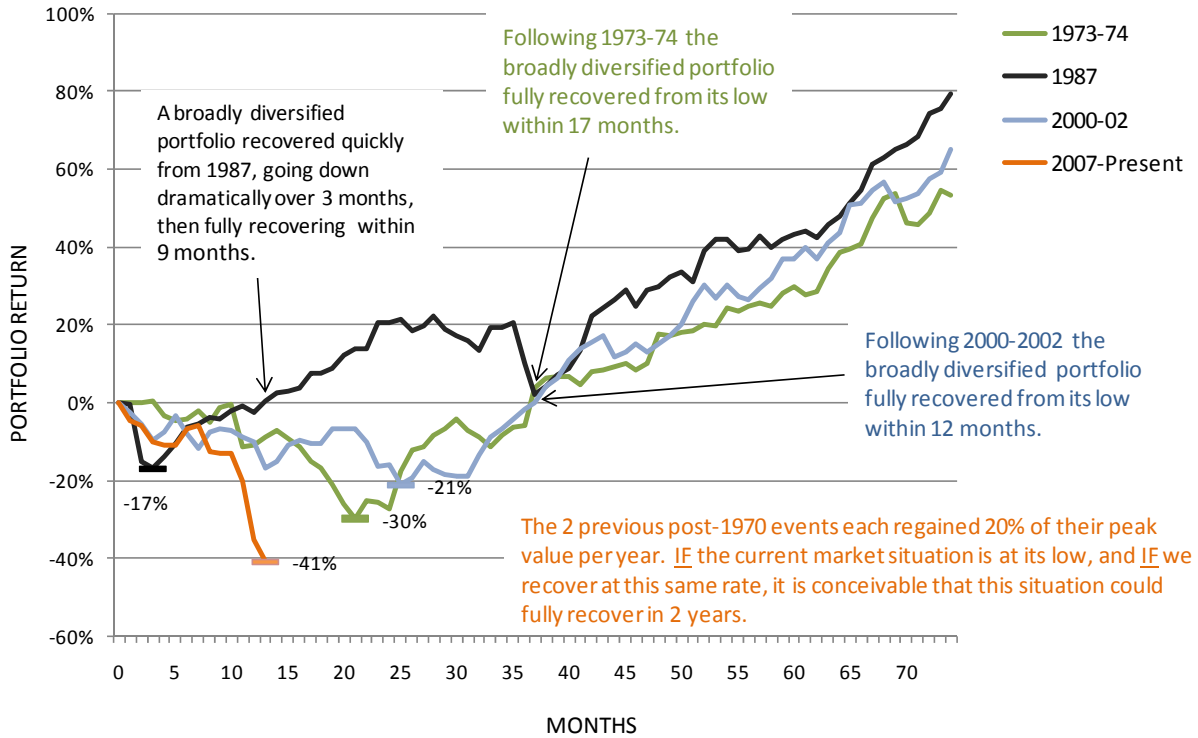
In December 2008, during the 2007-2009 global panic market, we wrote the following:

Clients have been asking us “How long will it take to recover my losses?” The feeling on the part of many clients is that the values have declined so far that it will take 10 years or more to recover. Although we can't be certain what the future holds, an examination of history suggests that the recovery period could be much shorter than you might imagine.

In that newsletter, we pointed out that if you are broadly, globally diversified, recovery periods from panic markets have been surprisingly fast. In the 2000-02 technology crash it was only about 12 months. In the 1973-74 market decline it was just shy of 1½ years. In the crash of 1987, it was only 9 months. We further noted that for each of these 3 periods, investors not only fully recovered, but their portfolios increased by an additional 50% to 70% beyond the original peak within 6 years.

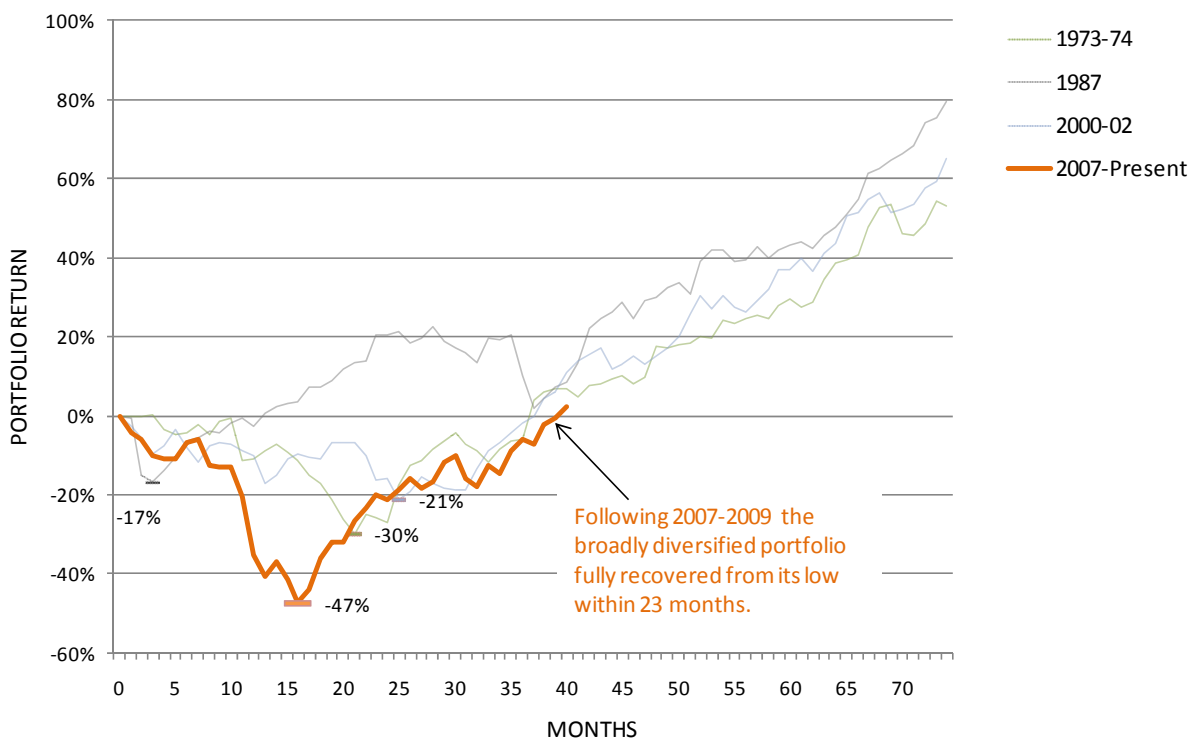
The chart from that December 2008 newsletter is shown below:

Historical Declines in Value & Recoveries In Broadly Diversified Portfolios



The market bottomed just three months after we wrote that newsletter, in March 2009. We are currently at the two year anniversary of that market bottom. So did history rhyme this time?

Historical Declines in Value & Recoveries In Broadly Diversified Portfolios



As it turns out it did. The peak to trough decline was 47%, and that loss was fully recovered in just 23 months.

Our observation in the original newsletter was not intended to be a prediction. Rather, it was intended to demonstrate that even in the midst of investor fear fueled by media hype, the markets do recover from dramatic declines, and they tend to do so relatively quickly. The common reaction during a panic period is “it’s different this time,” and that is true, as history never exactly repeats itself. But, as Mark Twain so wisely pointed out, it does rhyme.

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