

Market Rebounds

Since World War Two, there have been approximately 10 recessions, by the classic definition, in the United States. The recessions have lasted for as little as 6 months to as long as 16 months and the severity of each recession is different. The classic definition of a recession is a decline in the Gross Domestic Product (GDP) for two or more consecutive quarters. Economists don't all agree that this is a true definition of a recession. Instead, many economists will look at changes in the unemployment rate or consumer confidence as well as other metrics. The Business Cycle Dating Committee at the National Bureau of Economic Research (NBER) has given what might be the best definition of determining when a recession has taken place. They look at the level of business activity in the economy by looking at things like employment, industrial production, real income and wholesale-retail sales. What ever definition one might choose to use, the stock market has usually started the decline before anyone knows there is a recession taking place. Since the economic metrics used to determine a recession are backward looking, no one knows they are in a recession until it has already happened. Whereas the stock market tends to be forward looking so the market is often a leading economic indicator letting investors know that there may be trouble ahead.

The S&P 500 has experienced 5 years in a row of positive performance through 2007, which follows three consecutive years of losses. Since the S&P 500 started in 1926 measuring returns, it has experienced 23 down years (most recent in 2002) and 59 up years. Historically, some of the most dramatic market gains have followed market lows (most recently in 2003 coming off the market low) or coming out of a recession. (Dividends not included in numbers below.)

During Recessions

S&P "Bottoms"			Returns for 1-year after finding the market bottom		
*During Recession	S&P Level	% Change Peak to Bottom	Date	S&P Level	% Change 1-year
9/14/1953	22.71	-14.82	9/14/1954	31.28	37.74
10/22/1957	38.98	-21.47	10/22/1958	51.07	31.02
10/25/1960	52.2	-14.02	10/25/1961	68.34	30.92
5/26/1970	69.29	-36.06	5/26/1971	99.59	43.73
10/3/1974	62.28	-48.20	10/3/1975	85.95	38.01
3/27/1980	98.22	-17.07	3/27/1981	134.65	37.09
8/12/1982	102.42	-27.11	8/12/1983	162.16	58.33
10/11/1990	295.46	-19.92	10/11/1991	381.45	29.10
10/9/2002	776.76	-49.15	10/9/2003	1038.73	33.73

*2002 low was 10 months after recession ended.

Recessions | Since 1950 they have averaged 10.3 months in duration, but the S&P 500 historically peaked 8.1 months before the average recession officially started. The market typically "predicts" a recession is coming.

The S&P 500 is based on the average performance of 500 widely held common stocks. The S&P 500 is a broad-based measurement of changes in stock market conditions. Index returns do not reflect the deduction of fees, trading costs or other expenses. The Index is referred to for informational purposes only; the composition of the S&P 500 is different from the composition of the accounts managed by the investment manager. Investors may not make direct investments into any index. Past performance may not be indicative of future results.

Corrections

S&P corrections and subsequent performance

Date of market low	S&P Level	Correction	Following 1-year returns	Following 2-year returns
5/26/1970	69.29	-36.06%	43.73%	59.71%
10/3/1974	62.28	-48.20%	38.00%	67.00%
3/6/1978	86.90	-19.41%	12.62%	25.03%
3/27/1980	98.22	-17.07%	37.09%	13.97%
8/12/1982	102.42	-27.11%	58.33%	61.52%
12/4/1987	223.92	-33.51%	22.78%	56.93%
10/11/1990	295.46	-19.92%	29.10%	37.90%
10/27/1997	876.99	-10.79%	21.48%	47.86%
8/31/1998	957.00	-19.34%	37.93%	58.54%
10/9/2002	776.76	-49.15%	33.73%	44.46%

S&P 500 Annualized Return 1/1/1967 to 9/30/2007 = 11.23%

Corrections | The markets have seen 10 significant market corrections (> 10% declines) since 1970, including 4 not related to recessions. In each instance, the market has advanced at an above average rate over the year following the market bottom.

Market Rebounds

Even though a recession and a market correction are separate and independent events, the pattern of decline and recovery are similar. The returns after a recession and after a correction have exceeded the long term market average by a wide margin. The question of long term discipline becomes important because it becomes statistically improbable to time getting out of the market at the high point or getting in the market at the low point. By missing just a few choice days in the history of the market can make a huge difference in the returns realized by an investor. The table below illustrates the dramatic loss in performance by missing some of the best days in the market.

The major difficulty is not the getting out, it is the timing of getting back in. This can be very harmful to your investments. If an investor were to miss the best 10 days in the market over the last 10 years, their average annualized return would have fallen from 6.57% to 1.58%. If they missed the 30 best days over the last 10 years, their average annualized return would have declined to -5.41%.

The Penalty for Missing the Market

Investment pattern over a 10-year period	Average annual returns	Growth of \$10,000
Fully invested	6.57%	\$18,896
Miss 10 best days	1.58%	\$11,697
Miss 20 best days	-2.18%	\$8,019
Miss 30 best days	-5.41%	\$5,734

While no one can predict the bottom of the market, history shows us that the U.S. economy is resilient, and that rebounds take place quickly. Missing just a few of the leading rebound days can make a significant difference in the performance of a portfolio. The only way to be assured of capturing all of the market upside is to remain fully invested, using a long-term investment plan with a portfolio diversified over several asset classes and investment styles.

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