THE BAM ALLIANCE
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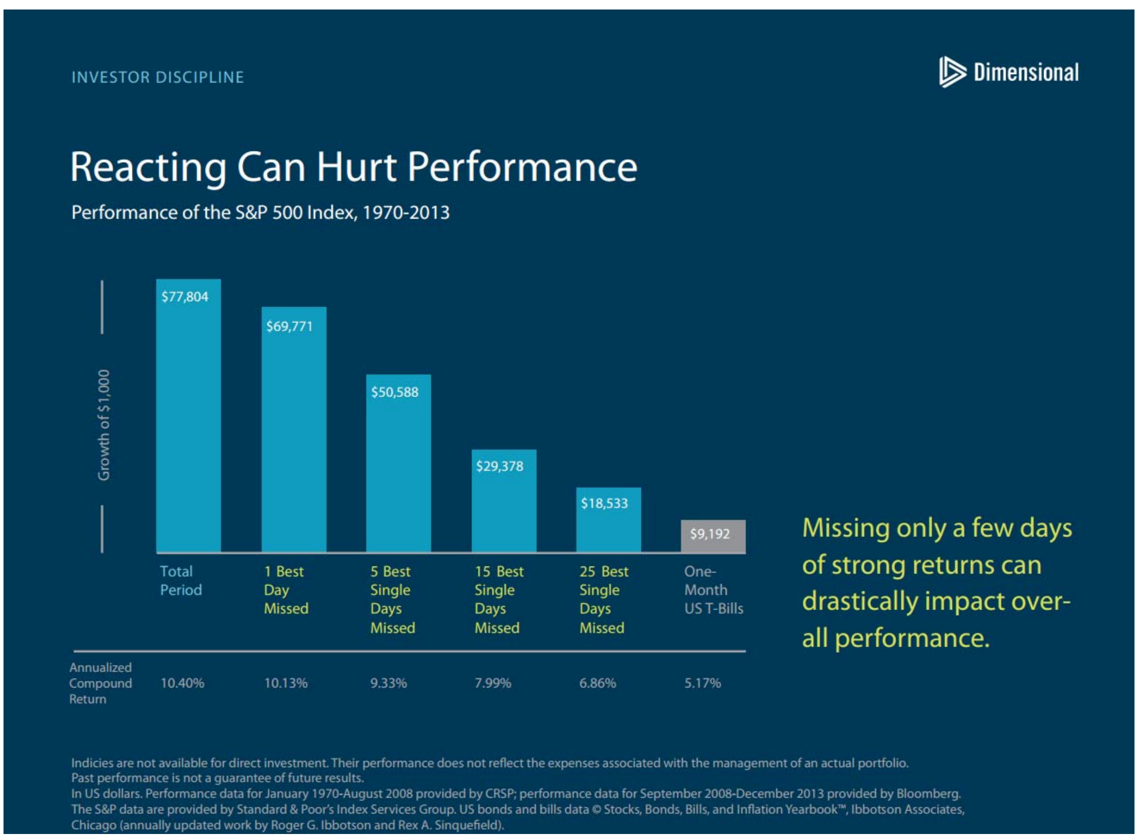
## The Risk of Reacting

**C.J. Baxter**

Many investors are feeling a little jittery these days, and rightfully so. We have had to deal with fears of Ebola, constant tension in the Middle East and a sluggish overseas economy. And that short list fails to mention we recently went through one of the biggest market pullbacks since The Great Depression. With the events of the 2008 crash so close in the rear-view mirror, many investors think the latest market volatility means that we are now doomed to repeat that down cycle (we call this a “recency” bias).

However, when things get a little unnerving, don’t conclude that it’s best to just sit on the sidelines for a while and then get back into the market when it's "safe." It never really is. Instead, consider the graph below.

It illustrates how missing out on just a few days or weeks can hurt your performance. The graph presents the annualized compound return and growth of $1,000 dollars invested in the S&P 500 Index from 1970-2013.




*Please see the disclosure at the end of this article*

The first bar shows us that staying invested throughout this period would have produced an annualized return of 10.40 percent. Now look at the third bar, and you will see that missing out on the five best single days during this period could have reduced your performance to 9.33 percent. Now let's look at the fifth bar. As you can see, this bar demonstrates that missing the 25 best single days in that period would have reduced your return to 6.86 percent. That's a difference of 3.54 percentage points. And it's from leaving the market for only 25 days (less than a month) over a 33-year period.

Now, to really drive the point home, let's frame this scenario with a larger dollar value. If you invested $100,000 in 1970 and applied the index's performance of 10.40 percent compounded annually over the same period, you would end up with $7,780,400. That's what you would earn from staying invested the entire time. If you use the same scenario, but plug in the 6.86 percent return, compounded annually, that an investor would earn from of missing the 25 best days, you end up with $1,853,300. The difference is more than $5.9 million. What would you do with that additional money?

This is why it's so important to have a solid investment plan in place. If your plan is built to suit your goals and risk tolerance, hopefully you won't feel the need to jump in and out of the market. Another crucial aspect of such a plan is to engage a fiduciary advisor, who will make sure that you stick with it.

Recently, I reached out to reassure a client about the market's volatility. He simply responded back, "That's what seatbelts are for!" Not only did I get a good chuckle, but I realized that it made a great metaphor for the role of an advisor. When the road gets rough and bumpy, advisors are there to make sure you don't go flying off course, keeping you buckled down and disciplined so you can reach your financial destination in the most prudent way possible.

*Disclosure: Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. In U.S. dollars. Performance data for January 1970-August 2008 provided by CRSP; performance data for September 2008-December 2013 provided by Bloomberg. The S&P data are provided by Standard & Poor's Index Services Group. U.S. bonds and bills data © Stocks, Bonds, Bills and Inflation YearbookTM, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).*

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A native of Central Oregon, C.J. graduated from Oregon State University with a B.S. in Business Finance and a minor in Economics. C.J. is currently enrolled in New York University's program to obtain the CFP® (CERTIFIED FINANCIAL PLANNER™) certification. C.J. currently holds the Series 65 license and is an investment advisor representative of Merit Wealth Management, LLC.

C.J.'s proficiency lies in comprehensive retirement planning and portfolio management. He finds great satisfaction in customizing portfolios for clients that parallel their unique investment goals through determining an investors need, ability and willingness to take market risk. Prior to joining Merit C.J. was in the commercial real estate industry where he managed a substantial portfolio of commercial real estate for accredited investors, including retail centers and medical/dental office properties.

C.J. volunteers his time as a member of Habitat for Humanity's Finance Committee, a non-profit organization helping those in need attain the dream of affordable home ownership. In his spare time you can find C.J. wakeboarding on one of the many lakes in Central Oregon or at Mt. Bachelor snowboarding during the winter months. C.J. also enjoys traveling with family and friends and is an accomplished drummer.