

# Down decade departs

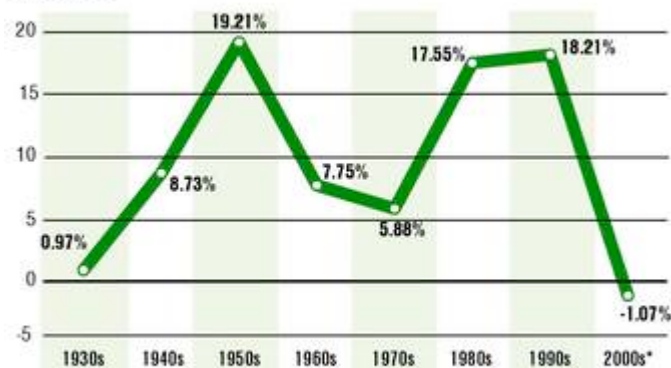
## Investors took a beating worse than the 1930s

INVESTORS TOOK A BEATING WORSE THAN THE 1930S

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### Standard & Poor's 500 Index total returns

By decade



\* The 2000s was measured from December 1999 to Dec. 18, 2009.

Source: Reuters, Standard & Poor's

T&G Staff/STACEY ARSENAULT

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-- Gary H. Sherr, Carl P. Sherr & Co., LLC

Worst. Decade. Ever.

That's the brutal truth sinking in as individual investors look back on the last 10 years, a period that included two stock market corrections and two recessions. Even the Great Depression era of the 1930s, when annualized total returns on the Standard & Poor's 500 Index were a meager 0.97 percent, outperformed the return of -1.07 percent in the last 10 years.

To close the decade, 2009 served investors plunging stock and bond markets, followed by a dizzying rally in the final months of the year. If there's anything for investors to learn from the events of the last year, some investment advisers said, it might be the one they preach even when times are good: Know what you can tolerate. Have a plan. Stick to it.

“I think a lot of newer investors got complacent in the last cycle with the market doing reasonably well every year, and they didn't realize the level of risk they were exposing

themselves to," said Thomas J. Bartholomew, president of Bartholomew & Co. Inc., a Worcester private investment planning company. "They realized in the later part of 2008 and 2009 what kind of risk they had exposed themselves to by watching the values of their investments erode. If there's a lesson to be learned, you have to know how much risk you're taking on."

The 2000s stood in stark contrast to the previous two decades. According to data compiled by Standard & Poor's and reported last week by Reuters, the Standard & Poor's 500 posted annualized total returns of about 18 percent in both the 1990s and 1980s. Annualized percentage returns are the annual profits on an investment as a percentage of the amount invested.

Stock markets also hit highs and lows in the latter part of the decade. The Dow Jones Industrial Average and the Standard & Poor's 500 Index hit record highs in October 2007. By March 2009, both had plunged to levels not seen in 10 years.

Yet as markets closed Thursday for the Christmas holiday, both indexes were capping months-long rallies. The Dow closed nearly 61 percent above its March low, and the Standard & Poor's 500 closed 67 percent above its March low.

**It's "almost like a sign the lifeguards put up, 'It's safe to go in the water,' " said Gary H. Sherr, vice president of Carl P. Sherr and Co. LLC, a Worcester brokerage. "The stock market is in that recovery mode."**

One lesson from the whipsaw of 2009 is to be realistic, said Kevin T. Grimes, principal and portfolio manager of the Westboro investment management firm Grimes & Co. Inc. The nation's economy remains burdened by an unemployment rate of about 10 percent, and consumers who have been so important in leading the nation out of other downturns have less ability to spend and borrow this time, Mr. Grimes said.

"You should probably be basing your projections on more modest return levels than people may have been used to using in the last couple decades," Mr. Grimes said. "I have people come in here, and they've gotten some sort of financial plan done, and they'll look out at their retirement projections, and they're probably thinking that the retirement projection is much more rosy than what we would use."

Another lesson: Try to shut out the noise of pundits and the panicked.

While some experts debate whether the markets are in a sharp recovery or poised for another precipitous drop, the truth is that no one knows what will happen, said Christopher P. Provo, president and chief executive of Provo Financial Services in Shrewsbury.

"I think we've come back to proper valuation," Mr. Provo said. "I think there's a lot of people saying different things right now. To me, it's a lot of noise."

In fact, many individual investors who went into the bear market with a reasonable plan and stuck with it, have bounced back reasonably well, said Mr. Bartholomew.

"If you were diligent and had the fortitude to hang in, you kind of pulled it back together

OK," Mr. Bartholomew said.

All of which raises the question, how should the lessons of 2009 be applied in 2010?

One answer: Be careful. Be realistic. Adjust those plans.

**"I would think it's a good time to clean up your portfolio," said Mr. Sherr. "Whether you're organizing your closet, your desk at work, cleaning out paperwork, you need to look at your investments in your 401(k), whatever it is, and really clean things out."**

**Mr. Sherr has been recommending stocks that pay dividends, such as utility companies, and diversified manufacturers such as Illinois Tool Works Inc.** Lower-quality companies that got hit hardest in the stock downturn have led the rally, but that could change in 2010, according to Mr. Grimes.

"We expect to see the quality companies really lead the market ... (and) companies that have exposures to emerging markets, which are a lot of the bigger U.S. companies," Mr. Grimes said. Grimes & Co. will also be focusing on higher-quality bonds, he said.

Some market observers have suggested that gold prices are forming a bubble, but Mr. Provo said he remains bullish about stock in gold mining companies. He expects real estate investment trusts focused on multifamily homes to rebound in the next few years, too. But his overall message is about balance and being defensive, which means making investments that remain stable under difficult economic conditions.

"I think the key is just having some of your money in growth, expect recovery and have some of your money protected," Mr. Provo said.