In your 20's, 30's or 40's? The Next 5 Years are Crucial to Your Financial Success!

Jody Team, CFP®

The last year has been tough! In fact, the past decade has been hard on the average investor. On December 31st, 1998 the Dow Jones stood at 9181.43. As of December 31st, 2008 the Dow was at 8776.39*. That means over the last 10 years, investors have lost money in the broad stock market. Ten years!!!

We have actually seen this before. Per Crestmont Research, there have been multiple 10 year periods where equity markets have declined. Periods such as 1901-1920, 1929-1941, and 1965-1981. Looking at past market patterns provided by Crestmont Research, there is a very good chance we are in for another 4 to 5 years of volatile bear market patterns. That does not mean every year will be down. A bear market attempts to frustrate the investor to a point where the average investor is only willing to buy stocks at an extremely discounted price.

Here is the good news! If you are in your 40's or younger, the next 4 to 5 years are very likely going to be your best opportunity for investing in stock markets over your lifetime! Markets are finally getting to valuations that make sense for investing. It is quite interesting that after a 35%-40% drop in markets people are more fearful than they were before the drop. When I was young my parents sometimes punished me with a spanking. Was I scared when I knew I was going to receive my punishment? Sure! Was I scared after I got the spanking? No! Investor psychology is a funny thing. We too often invest according to our most recent experience. By looking at history and the overall picture of valuations we can formulate a better plan. My expectation is that the next 4 to 5 years will produce the lowest valuations in stocks that we will see for another 20 years.

Assume you were 40 years old and had accumulated $200k at the end of each of the following bear markets. Then look at the value of your portfolio after 5 and 10 years

>	**Value**	**5 Years**	**10 Years**
1920:	$200,000	$438,080	$458,170
1941:	$200,000	$322,231	$489,620
1981:	$200,000	$435,290	$727,533
2014:	$200,000	?	?

The above is what you would have done if you were invested in the Dow Jones Industrial Average. Two of those examples doubled your money over 5 years. The last example more than tripled over 10 years. Think of what a good investment plan could provide over the same time period!

The investment opportunities will be abundant over the course of the next 5 years. The last bear provided opportunities such as this: On December 31st, 1981 you could have purchased IBM at a split adjusted price of $14.21*. Today, it is trading around $89* even after a bad year. Not Bad!!!

Do you have a plan that you can follow to help you accumulate over the next 4 to 5 years? A good planner that eliminates conflicts of interest and acts as your Fiduciary can help you get there. By reducing taxes, minimizing unnecessary spending, setting savings goals you will have a better foundation when the next true bull market begins.

*All market and stock pricing information provided by BigCharts.com

> Used DJIA returns from Crestmont Research to calculate 5 and 10 year values