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# You're a Long-term Investor and Don't Forget It

by Stephen J. Butler

"Plan for a hundred years, but live each day as your last." This blast of hyperbole offers one of the best antidotes for coming to terms with the stock market's deluge.

For the vast majority of us, the drop in real estate and stock market values is only a loss on paper. It's depressing --- no question about that --- but it's never a "realized loss" until we sell in a panic. If this were our last day on the planet, we would hardly be battling voice mail or the Internet to liquidate our equity. Instead, we would want to be with our pals --- appreciating our loved ones, and scratching our dogs behind their ears.

Given the unprecedented huge and sudden drop in market values, how can we put this event into perspective and deal with it constructively? Well, if we're planning for a hundred years, this drop is immaterial. In fact, it's an opportunity to invest at great values. The vast majority of our fellow 401(k) investors are doing just that. An extremely small percentage of employees (less than five percent) have bailed out of the market. We are an army of well-trained Warren Buffets, and we've all been through this before.

But how much credit can we give ourselves? Are we patient, sophisticated long-term investors or just shell shocked and suffering in a catatonic state? In any case, will we be rewarded?

History indicates that we will. If we review the results for someone who started investing $1,000 in the S&P 500 beginning as late as 1997, they would have about $8000 as of October 31st in return for their ten annual $1,000 contributions. If they had started twenty years earlier, in 1987, they would have had $35,000 by the end of last month in return for their $20,000 of total contributions. What this illustrates is that a long-term exposure to the stock market overcomes even the most aggravating downturns imaginable. But to think short-term, like ten years, can set the stage for discouragement --- temporarily.

We can also learn something about investing from market "breaks." The above numbers are applicable to just the S&P 500 --- the five hundred largest companies in the United States. Had we compared those results with a diversified equal mix of foreign, small company and the S&P 500 index funds, the result would have generated $12,000 in ten years and $45,000 in 20 years. And these positive results --- more common with 401(k) participants taught to allocate money over different investment types --- amount to far greater than anything a money market would have created.

Under certain conditions, there can be a total disconnect between the supply and demand for the stock in a company versus the company's actual ability to sell a product and make money. Today, major financial institutions --- especially hedge funds --- are desperate to sell assets, any assets, so they can pay back investors who want to leave. This is a key reason for why stock prices are bearing little relationship to the underlying assets they normally represent. But help is on the way, and here's what it might look like: In 1932, the Dow Jones Average was at $43. Over the next five years, it rose to $187. Someone with $1,000 in the market in '32 had well over $5,000 five years later because companies paid dividends over and above their rising stock values. Today, some companies are paying dividends that amount to almost 20 percent of their current, hopelessly beaten down stock prices. Eventually, the behavior of stocks will "revert to the norm" which means that they will reflect a more accurate value of the companies they represent. But for the moment, they are "off the charts" with no adult supervision.

Meanwhile our current loss on paper should prompt some introspection: As in, "How important is that money to me today?" "How real was that inflated statement back in September of last year?" "What's important in life?" "What if I died in the dentist's chair next week?" "Are my priorities straight?"

Hey, this coffee smells really great, and my cup is still half full.