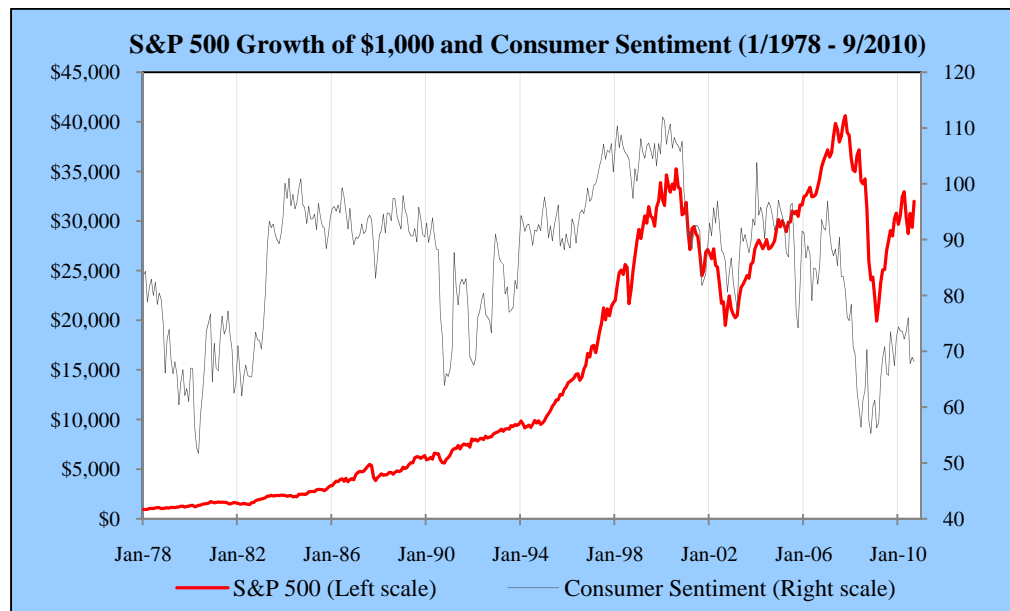


## Third Quarter 2010 Knowledge College

### Market Strength in the Face of Adversity

Despite negative economic headlines, declining consumer sentiment and political uncertainty throughout the summer months of 2010, the S&P 500 continued to move higher. This Knowledge College observes recent examples of equity market rallies in the face of adverse news.



#### High Interest Rates and Slow Growth (1984-85)

- In March 1984, consumer sentiment began a consistent decline after hitting an all-time high of 101. Despite persistently high interest rates, slow growth and a bleak economic outlook, the S&P 500 added a cumulative 58% over the next 2 years in what turned out to be the beginning of a long-term equity bull market.

#### Gulf War and S&L Crisis Aftermath (1990s)

- Military conflict (Gulf War) and consequences of the Savings & Loan crisis such as a large federal deficit and a wavering real estate market weighed heavily on market optimism in the early 1990's.
- However, the S&P 500's acceleration was not interrupted, more than doubling between 1990 and 1996 (108%).

### **The Year 2000 Problem, also known as “Y2K” (1999)**

- While worries over Y2K intensified as the 20<sup>th</sup> century came to a close, the S&P 500 rallied 21% in 1999.

### **The September 11 Attacks (2001)**

- During the six months after the 9/11 attacks, the S&P 500 gained 11%.
- Notably, this gain withstood the Enron collapse (October 2001) which shook investors' confidence in corporate reporting.

### **Growth Uncertainty (2004-05)**

- From January 2004 to October 2005, Consumer Sentiment declined significantly (103.4 to 74.2) as the sustainability of the recovery from the 2002 recession was called into question.
- During the same time period, the S&P 500 appreciated slightly more than 12%.

### **Current (2010)**

- Unemployment rates, government debt levels and tax law implications have cast doubt in the near-term economic outlook. When combined with controversy surrounding recent healthcare and financial reform plus the upcoming mid-term elections, the current environment can be viewed as similar to past.
- In the course of these headwinds, the S&P 500 jumped over 11% in the third quarter 2010.

Although good economic, political or corporate news is generally embraced with solid stock market performance, negative developments do not always bring significant declines. Maintaining a fully invested diversified portfolio combined with disciplined rebalancing will enable investors to successfully navigate all market environments, optimistic or dire.

*For more information, visit our [website](#) or contact any of the professionals at DiMeo Schneider & Associates, L.L.C.*