### INVESTMENT UPDATE

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# THE MUNCY BANK & TRUST COMPANY

#### INSIDE THIS ISSUE:

Past market downturns have been followed by strong investment performance.

International investing in small and value stocks works well.

The presidential stock market cycle, Hawaii abounds in millionaires, and more.

It's easier to achieve a retirement nest egg if you start saving early.

#### **Points of interest:**

- The skeptics worry we will fall back into a long-term bear market.
- "Stocks for the Long Run" author Jeremy Siegel says the market is undervalued and has plenty of room to rise.
- Analyst Laszlo Birinyi argues that past bear market recovery patterns indicate we are in the early stages of a major bull market.

## MARKET HISTORIANS SAY THIS BULL MARKET IS FOR REAL AND WILL LAST

tock markets worldwide have been rallying for nearly two years now. The Standard & Poor's 500 Index hit a low of 676 on March 9, 2009 and has risen ever since. In late February it was in the 1330 range.

Yet the average investor doesn't seem to trust the trend, and plenty of professionals are skeptical as well.

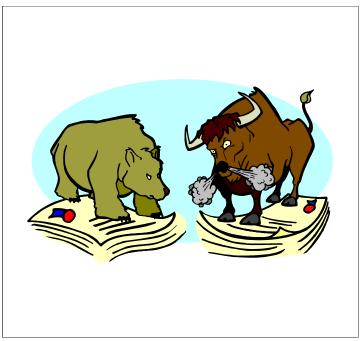
Worries over the growth in U.S debt, cynicism over the Federal Reserve's stimulus strategy, and talk of a short-term cyclical bull market within a long-term secular bear market abound.

Yet two of the most eminent historians of Wall Street are saying that not only does this bull market have a long way to go, but that it could be as historic as the market's rise from the early 1980s through the late 1990s.

Wharton's wizard
Jeremy Siegel, the Wharton School professor and
author of "Stocks for the Long
Run," has studied stock market returns going back to
1802. He says this market is
at least 20 percent below the
long-term trend line in stocks.
Other bull markets have risen
well above the long term
trend line before they were
over, he says.

"This market is not overvalued," he recently told *In*vestment News. "The next several years are going to be good for stocks."

The 2008 bear market



Investors continue to debate whether we are in a true bull market or a brief bull market within a larger bear market.

pushed the U.S. stock market to almost 40 percent below its trend line. That was the fifth-largest decline since 1865, he said. Such large declines in the past have been followed by strong, multi-year recoveries.

"In 2008, people were telling me that this feels like the 1950s," he said. "But I told them don't lose the faith. Stocks are going to come back."

Strong growth in corporate earnings will propel stocks higher for several years, he argues.

The current estimates for earnings on the S&P 500 say

they will surpass the record set in 2007, when the index hit its peak of 1565. Siegel says his analysis indicates the S&P could hit 1800 in the next two years.

Super bull run Long-time market commentator Laszlo Birinyi has predicted the market could double by late 2013.

Birinyi, a long-time guest on the old Wall Street Week with Louis Rukeyser show, expects the S&P to rise by 60 percent to as much as over 100 percent in the next few years.

Birinyi says his study of (Continued on page 2)

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# BULL MARKETS RUN THROUGH FOUR PHASES, NOTED ANALYST SAYS

(Continued from page 1)

past bull markets shows that they go through four phases:

- An initial spurt, when investors remain reluctant to admit a bull market has begun.
- A consolidation phase, when returns are anemic.
- An acceptance phase, when investors start believing and returns begin to

improve.

 Finally, an exuberant phase, with strong returns.

He was impressed by the strong 80 percent gain in the first phase of this cycle, and says past bull markets that started out this strong were among the best for investors.

For instance, the bull market that began in 1982 started off with a 63 percent return, he said. By the end of the cycle, stocks had gained 229 percent.



Market bears don't like what they see.

In the end, predictions are educated guesses. Investors should concentrate on sticking with stocks no matter what the short term outlook.

#### BAD NEWS? WE'VE SEEN IT ALL BEFORE

Inflation fears, high government spending, rising oil prices, soaring unemployment, volatile investment markets, and economic slowdowns have been the stuff of economic headlines in recent years.

Coupled with the worst decline in the stock market since the Great Depression, this headline news has made many Americans skeptical about their economic prospects.

Would it surprise you to learn that we've been here before and managed to climb into new economic and investment market prosperity every time?

Past calamities
Every economic crisis
and attendant stock market
decline since the Great Depression has resulted in headlines about the world changing for the worse. The typical
assumption is that growth has
ended, returns will be low or
stagnant, and that the good
days are behind us.

In fact, the years follow-

ing such periods are usually the best for investors. Take the four years ended in 1932. From 1929 to 1932 a historic Depression brought stock prices down from \$1 to 31 cents. It felt like the economy had permanently changed and the markets would never recover.

Yet the annualized return on U.S. stocks, as measured by the **CRSP 1-10** Index. a broad market measure, were 15.4% per year over the subsequent five years.

Investors found themselves in similar doldrums in 1941 after another recession and on the eve of a devastating world war. Over the next five years stalwart investors earned an annualized 18.6 percent gain in U.S. stocks.

The oil crash
The Arab oil embargo,
price controls, shortages, high
inflation, and a huge slump in
the housing market were the
headlines in 1974 at the end of
a two-year recession, yet U.S.
stocks earned an annualized

return of 17.3 percent over the next five years.

Likewise, the scary Black Monday crash of 1987 was followed by a five year bull run with 18.8 percent annualized returns, while the three year dotcom crash that ended in late

2002 engendered returns of 16.2 percent per year in subsequent years.

It could well be different this time and the doomsayers may have their way. However, history is against it, and investors should stay in the game. "The scary Black
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The economic news since the 2008 bear market has been dominated by unemployment, oil price shocks, and government spending worries.

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## INTERNATIONAL STOCKS STILL OFFER DIVERSIFICATION BENEFITS

A long-held axiom among professional investors says that diversifying a portfolio by adding international stocks helps to reduce risk and enhance returns.

But as the world's developed economies in Asia and Europe have become more tightly entwined, critics have argued that global investing's allure has declined because stock market patterns in major markets have converged.

Rex Sinquefield, who helped develop the first long-term analysis of stock market returns, concluded in 1996 that these arguments were both right and wrong.

Big stocks in sync He demonstrated that the returns on large stocks in Europe, Asia, and the United States had coalesced, after discounting the effects of local currency fluctuations.

However, he still found some diversification benefit because there is enough difference in return patterns between markets that investing in several at once helps to reduce volatility (for instance, Japan's market may be rising during a year when Germany's is falling).

Sinquefield's big conclusion, however, was that investors can get a lot of diversification and return bang for their bucks by concentrating in international small stocks and international value stocks.

#### Fama and French Professors Eugene

Fama and Kenneth
French had already demonstrated in the early 1990s that stocks of small companies and so-called value stocks (those whose prices were low in relation to their company's book values) offered high returns and diversification benefits in the United States. Sinquefield, Fama, and French argued that the phenomenon was international as well.

An update of Sinquefield's work by Dimensional Fund Advisors, the firm he founded, has provided sup-



Investing in international small and value stocks can juice up your portfolio.

port for this theory.

Since 1970, the annual average returns of small and value stocks both here and abroad have exceeded large stocks by anywhere from three to six percentage points. However, small and value stocks also are more volatile than large stocks.

For that reason, investors should maintain modest allocations to the risky asset classes in order to improve their returns without adding additional overall risk, DFA says.

"Investors can get a lot of diversification and return bang for their bucks by concentrating in international small stocks and international value stocks."

### UPBEAT THIRD YEAR, HAWAII'S RICH, & MORE

This is the third year of President Obama's term, and, traditionally, the best year for investors in the four-year presidential cycle.

Market historians at the Leuthold group say that since 1942 the 200 days after midterm elections have produced consistent upturns, regardless of which party is in power and which party wins the midterm elections.

In all 17 previous instances the U.S. market gained 18 percent on aver-

age, the firm says. Theories have abounded but no academic proof has been offered of why this pattern occurs.

Hawaii's millionaires
Want to be rich? Live in
Hawaii. The weather is
not too shabby either.

Phoenix Marketing
International recently
ranked states by percentage of millionaires
and Hawaii came out
on top, followed by Maryland,
New Jersey, and Connecticut.

The research firm noted that the top states were primarily small states with large

concentrations of highly education professionals and business owners.

Financial illiteracy More than two-thirds of Americans failed a simple financial literacy test commissioned by Northwestern Mutual Life, the company said.

Only one-third could accurately peg the long-term rate of inflation at 3 percent, rather than 6 or 9 percent, while only another third knew that index mutual funds aim to match the returns of stock or bond benchmarks. However, 79 percent understood asset allocation.

### THE MUNCY BANK & TRUST COMPANY

### A LESSON FOR YOUNG WORKERS: SAVE AS MUCH AS YOU CAN NOW

Here's a lesson to keep repeating to your children and grandchildren: it's easier to save \$381 per month toward retirement than to save \$5,778 per month.

Seems simple, doesn't it? Yet it might be the hardest financial chore a young person can undertake. The reward, however, is a secure retirement, rather than a decision to keep working or live in poverty.

First, here's where the monthly savings numbers come from:

- A 25-year-old worker who wants to accumulate \$1 million by age 65, and who expects to make 7 percent a year, needs to put away \$381 per month.
- However, the worker



The earlier in life you get started on building a nest egg, the more substantial it will become.

who delays retirement saving until age 55 must put away \$5,778 per month—or \$69,336 per year, at age 55 to get to that \$1 million goal.

It's all about compounding of gains, of course: the much longer period a young worker has until retirement allows his or her savings to grow substantially over the years. In fact, the first \$381 the worker puts away is the most important: It will grow to \$6,215 in 40 years.

Savers who start early get a break later in life: it may be very hard to come up with \$381 per month at age 25, but as they age and inflation and salary increases occur, it will become a snap to put that money away in later years.

In fact, that will free up cash flow in later years to handle the increased expenses of raising and educating children.

Even if a young worker can't save that ideal amount right away, saving as much as possible each month and then regularly increasing that monthly amount will let them achieve their goals. The worst move is to wait until later in life to start saving.

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