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Misery precedes opportunity

The trough of a bear market begins and ends with what financial behaviorists call “despondency.” Investment statements are tossed aside unopened, conversations about the stock market become a rarity, and investors are frozen with fear.

Today, we believe that investors are in this despondency trough. Investors are facing working more years with a lifestyle in retirement much different than they envisioned.

If the stock market finishes down in 2003, we would have four consecutive years of negative markets for the only time since the Great Depression. Absolute misery.



**PERSONAL
FINANCE**

**RICHARD
TODD**

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an investment policy and
planned portfolio design.
The markets have taken
investors out of the balance —
in other words, under-
allocation of stocks, over-
allocation of bonds.**

Bonds have been the savior for investors. Annualized double-digit returns for the last three years have significantly cushioned the stock market's blow.

It's no wonder why there is a mountain of cash on the sidelines, and now mutual fund investments go to cash and bonds over stocks by almost a 10-to-one ratio.

So, what do we know? Over longer periods of time, stocks bring returns like any other business. Stocks have roughly returned GDP growth plus dividends.

In the next 10 years, if we assume a below average 4-to-5 percent GDP annual growth plus dividends, you should expect 6-to-8 percent with stocks—about Warren Buffett's prediction.

The 10-year treasury yields around 3.5 percent. Perhaps corporate and mortgage banks can add another 1 percent or so. Expect under 5 percent in bonds for 10 years.

Every investor should have an investment policy and planned portfolio design. The markets have taken investors out of balance — in other words, under-allocation of stocks, over-allocation of bonds.

If you are a believer in the resilience of the American economy (I am) and have a reasonable long time frame (over 10 years), rebalance your portfolio back to your target as institutions do. Sell bonds, buy stocks.

Misery brings terrific opportunities and time and history are on your side. The despondency stage always has led to excellent opportunities.

RICHARD M. TODD is a consultant and principal of InnoVest Portfolio Solutions in Greenwood Village. Reach him at 303-694-1900 or via e-mail at richt@innovestinc.com.