



### Recovering from a crash

Much like an accident victim who has been badly shaken up, the markets are trying to work their way out of one of the worst crashes in US and global stock market history. This period of convalescing for the markets could take some time and we should all expect the extreme volatility and market swings will continue before things level off. With that said, it might be helpful to put some historical perspective on the economic roller coaster which we are currently riding.

By looking back at the two most recent major bear market declines in 1987 and 2002 we can learn something about how recoveries typically occur. The chart below illustrates the precipitous drop that occurred in October 1987. The chart shows the period of sustained volatility following the market crash on "Black Monday" on October 19, 1987. We retested the lows several times over the next several months. Most people do not remember that although the market staged a couple of very impressive rallies over the weeks and months following Black Monday, it was not until mid-December 1987 that the stock market stabilized and staged a multi-year recovery.

### S&P 500 in 1987



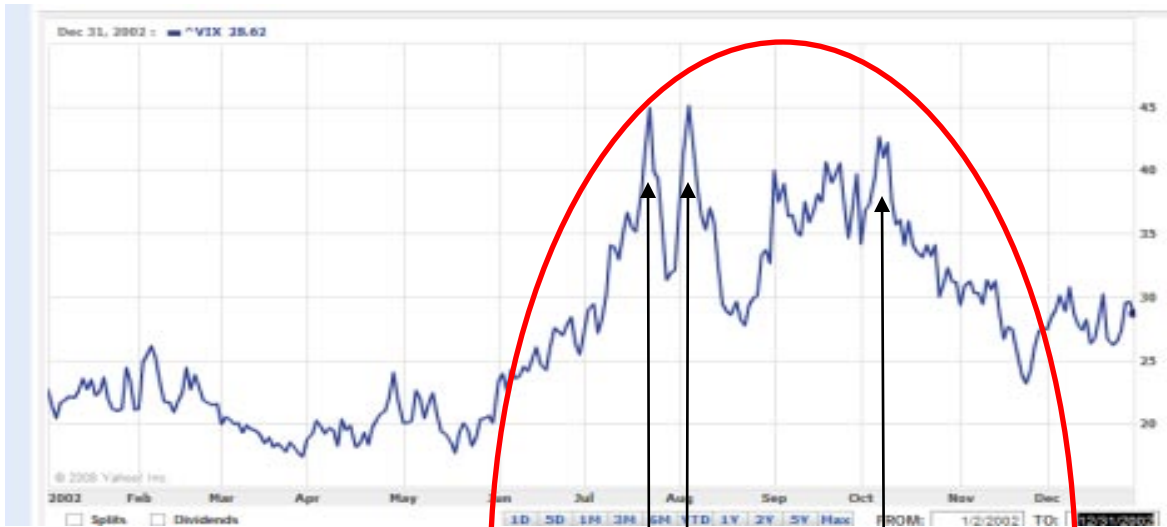
(Source Yahoo Finance)

The charts on the next page shows the value of the Chicago Board of Options Exchange Volatility Index (VIX) in 2002 and the S&P 500 for the same time period. The VIX is often referred to as the "fear gauge," it is a measure of the volatility expected in the immediate future. Typically this chart increases on market declines and decreases when the market moves up. This chart from 2002 shows that we reached several extreme readings during this period. Even though the low on the market was reached for the first time in early August 2002, the market bounced around for at least two months before beginning a 5 year recovery with the a low

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on October 9, 2002 of 776.76 to the high on October 12, 2007 of 1562.47 (source Yahoo finance). The VIX index today has reached the highest levels recorded since its inception in 1993. Investors today are expecting continued volatility that will probably persist for a couple of months (though not necessarily drive the market lower). The markets could also be setting up for a meaningful but choppy recovery during the fourth quarter 2008 or early in 2009. The contrast of the VIX and the S&P charts below illustrates the correlation between volatility and negative performance prior to a meaningful recovery.

**VIX 2002**



(Source Yahoo finance 1/2/02-12/31/02)

**S&P 500 2002**



(Source yahoo finance 1/20/02-12/31/02)

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## **Has the 2008 Recovery begun?**

If it has, it may not feel like it for some time. The reason for this is that many companies are aggressively managing future earning expectations and trying to figure out their business models in this new, lower debt, economic landscape. Even though the liquidity crisis might be close to resolution, there will be significant economic implications and it will take a little time to evaluate the long-term ramifications for the economy and for future corporate earnings.

## **What should you be doing?**

Remember **the market is a current measurement of everyone's future expectations**. That means that the market decline already reflects the pessimistic outlook and concern everyone has for the future. So the question for all investors is not where the economy will be in six months, but what our *expectations* will be six months from now. There is little doubt that the economy will be going through some pain that is what the stock markets are telling us.

To make it through any volatile period the secret is to stay within your personal comfort zone and remain invested in all environments when we believe it is prudent to do so. Unfortunately, after a decline of this magnitude, recoveries and bottoms are painful and take a little time to work themselves out.

It is of little solace to focus on opportunity when uncertainty is so rampant, but it is also true that only then is opportunity really available to everyone. There will be unique opportunities for all of us in these unusual times. This 2008 stock market crash has not been an average drop and so, while there are no guarantees in stock investing, we believe a stronger recovery is very likely, whenever that occurs.

Over the next weeks and months, Kelly will be meeting with each client to discuss using a personal Financial Control Scorecard<sup>®</sup>, which will help you understand how this decline might affect your personal situation and enable you to make any necessary adjustments to your financial life. Rest assured that we are overseeing your portfolio throughout these challenging times.

***Thank you for your continued trust and confidence,***



***Trevethan Capital Partners***  
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