Lessons Learned from Columbus: Is Changing Course the Best Course?

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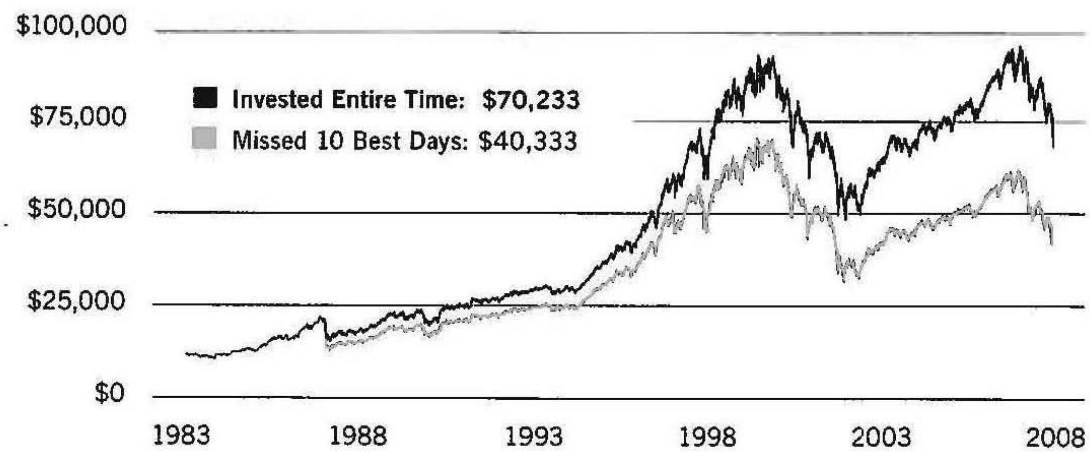
History has touted Christopher Columbus to be one of the greatest explorers of all time. Most Americans agree that without his journey, America itself may not even exist. That said, we look back and admire the man that journeyed so valiantly across the Atlantic without the certainty of knowing what we know today; there was land. We assume Columbus and his crew were of like mind throughout the journey. We assume the crew believed and supported the vision and collectively they were determined to uncover a new trade route by sailing west, discovering new territory and claiming it for Spain. However, our assumptions are historically inaccurate.

The fact is after being afloat for over 60 days with no sign of land, a mutiny ensued. Columbus was confronted by his officers' demands to turn back. The crew was discouraged. They felt they had been pushed to their limits and were ready to abandon the mission. Columbus responded by acknowledging the crew's concerns, but he also stated the simple fact that there were not enough supplies to support a return trip. Roughly ten days of food and water remained. To reverse would certainly result in death for all. The course to ensure their survival was to press on. Faced with this reality, the crew accepted the wisdom of their leader and pressed on. Had they turned back, the world as we know it, more than likely, would not exist.

This story reminds me of how many investors today feel. We can certainly identify with the crew and their feelings of having been pushed to their limits. Our current bear market seems to have forced many of us to test our own personal limits and tolerance of volatility. Some of us have grown exhausted of the "testing". Understandably so, as these past several months of market performance have been grueling at best. And with the markets having hit new lows last week, we find ourselves asking, "Is it time to reverse course?" Columbus might say, "We've come too far to turn back now. Turning back could have dire consequences. We must press on."

Consider a recent study presented by Eaton Vance on the ten best days[1] in the market over the 25-year period from 1983-2008. Let us assume you invested a hypothetical $10,000 in the S&P 500 Index in 1983 and missed the ten best days of 6,250 trading days. Your return over the period would have been 43% less than if you stayed invested the entire time! Ten days is approximately 0.2% of investment experience during that period. A negligible percentage of time had a dramatic impact on returns.

HOW 10 DAYS COULD HAVE AFFECTED 25 YEARS OF PERFORMANCE (9/30/83 - 9/30/08)



Source: Thomson and Standard & Poors. Returns do not include reinvestment of dividends.

Another point to note, six of the ten best days occurred within ten calendar days of the ten worst days based on percentage decline.[2] Taking that fact into account suggests there is something to be said for maintaining your position. Furthermore, these results are evidence as to why we do not encourage or support market timing but also why we adhere to our philosophy of maintaining a broadly diversified portfolio of high quality investments. Market recoveries tend to begin suddenly and surge quickly. Being out of the market during quick surges can be detrimental to an investor's long term rate of return.

Columbus was committed to staying the course in light of what appeared to be dire circumstances. History confirms his patience and perseverance paid off. The lesson for investors is the same, patience and perseverance pays off. While we acknowledge that no one knows the future of the markets, we learn from history that these time-tested strategies can and do sustain us, and help move us forward to recovery.

We understand that many investors feel they have been pushed to their limits in this market. Some have started to ask questions about taking another course of action. Before implementing changes, note it has been said that patience is also a form of action. However, if you have questions or concerns about your portfolio or would like to discuss your current strategies, please do not hesitate to contact us. We are always available to assist you during this difficult bear market.

Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. An investor cannot invest directly in an index. Individual results vary. Past performance is no guarantee of future returns. Index returns do not reflect the deduction of fees, trading costs or other expenses. ***The Standard & Poor's 500*** *(S&P 500) Index measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It should not be assumed that any investment recommendation or decisions made in the future will be profitable or will equal any investment performance discussed herein. The fact that buy-and-hold has been a successful strategy in the past does not guarantee that it will continue to be successful in the future.*

[1] The "best days are defined as the days on which the S&P 500 Index delivered its highest returns on a percentage basis for the given periods based on historical data.
[2] Eaton Vance Distributors, 2008, 3513-11/08, EV10BEST
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