



Perspective

Stock market performance. Over the past two weeks, we have experienced significant events both at home and abroad that have caused increased volatility in the global capital markets. In turn, there has been considerable downward pressure in equity markets as some investors exhibit fear, creating an environment where additional volatility may be realized in the near-term.

How is this different than 2008? In 2008, many companies - most notably in the financial sector - were leveraged beyond their capacity to sustain prudent balance sheets, ultimately setting the stage for losses they weren't prepared to absorb. The job market went into free fall as the housing market slid harder and more quickly than many foresaw. Numerous financial companies faltered while others experienced significant - and rapid - declines in sales and earnings.

In 2011, the landscape has changed for the better. Stable companies are no longer leveraged beyond their capacity, their balance sheets are well capitalized, and sales and earnings are positive.

Get a historical perspective. See [past performance of stocks, bonds, bills and inflation](#) from 1926-2010. Also refer to [Anatomy of a Market Decline](#).

Guidance

Don't panic. In previous meetings, your financial representative asked you questions that helped complete your personal investor profile, which developed your asset allocation strategy based on your goals, objectives, time horizon and tolerance for risk. Stay committed to your long-term goals and resist changes that are driven by emotion. Changing your asset allocation in challenging times may damage your potential to meet long-term goals.

Discuss rebalancing with your financial representative. Over the past two weeks, your account has likely seen its allocation shift, with the percentage of your assets in some investments higher than originally intended, while other investments have seen their percentage drop.

By rebalancing to your original allocation you are following the first rule of investing: Buy Low / Sell High. The act of rebalancing allows you to sell the assets that have relatively stronger performance, and buy more of the assets with a relatively weaker performance. This act of rebalancing has been shown to not only potentially enhance returns, but to potentially reduce the risk of your portfolio as well.

Consider putting excess cash to work. Now may be the time to invest cash that you have. Price-earnings (P/E) ratios - which are used to indicate if a security is over or under valued - are at lows that haven't been seen in years. Whether you invest in individual stocks, mutual funds or ETFs, putting your money to work now allows you to buy securities at a lower cost than two weeks ago.

Meet liquidity needs. One other step to consider and discuss with your financial representative is setting aside enough money to meet your short-term liquidity needs for the next two years. Today's market volatility could present an opportunity to take pause and reconsider expenses you may incur over the next 24 months, such as college tuition, wedding party, vacations or vehicles. Whatever the expense, you do not want to expose the money you have set aside to short-term market fluctuations. While we expect the market to bounce back over time, this step helps you stay the course during short-term stock market tumbles.

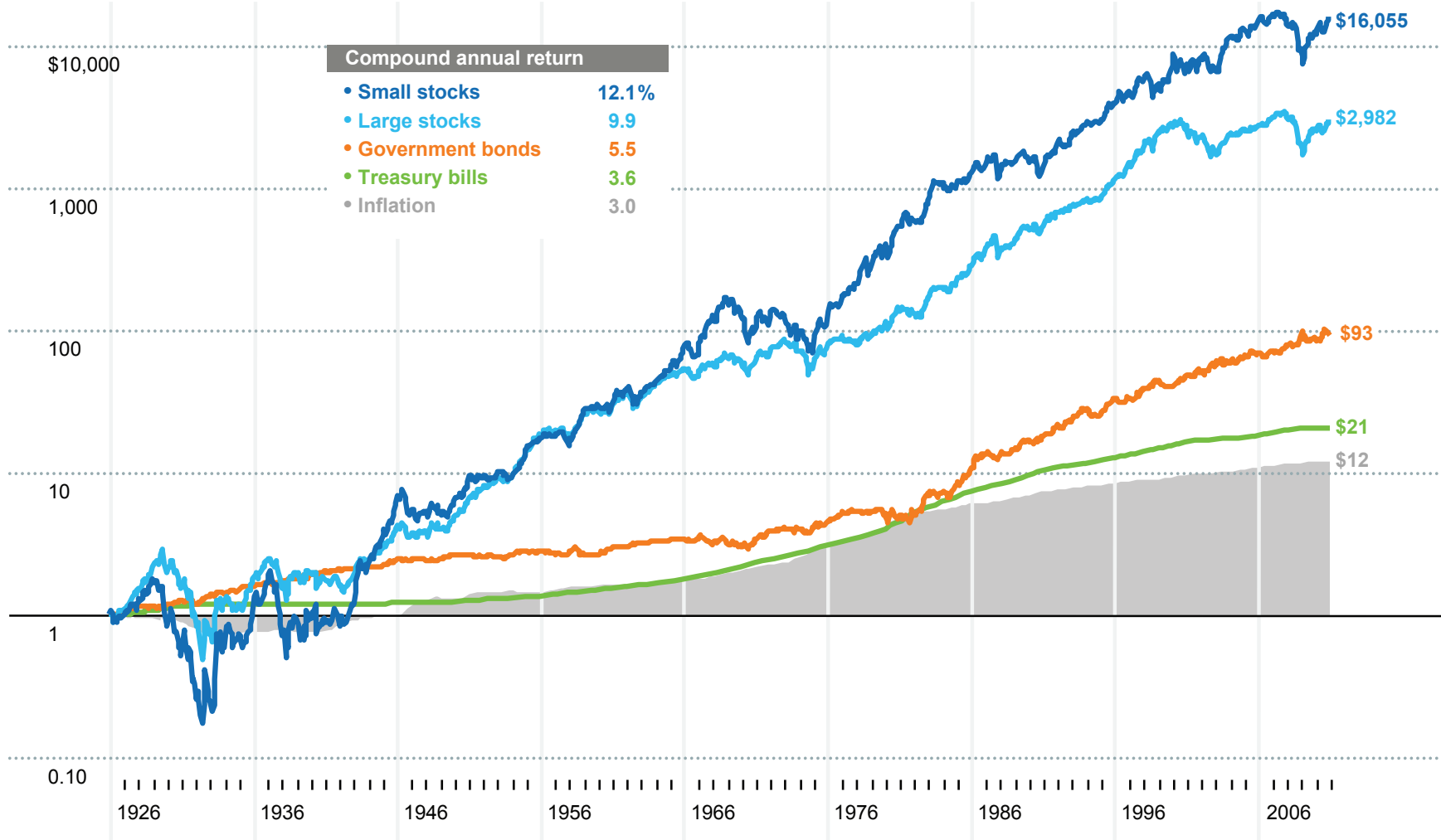
Moving Ahead

Don't go it alone. Markets are unpredictable and rife with volatility. This makes the value of working with your financial representative even more critical. Use this as an opportunity to meet with your financial representative and review your risk tolerance and asset allocation.

Emmett Wright is the Chief Investment Officer of The Northwestern Mutual Wealth Management Company. The opinions expressed are those of Emmett Wright as of the date stated on this report and are subject to change. There is no guarantee that the forecasts made will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment or security. Information and opinions are derived from proprietary and non-proprietary sources.

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Please remember that all investments carry some level of risk, including the potential loss of principal invested. Past performance is no guarantee of future results. No investment strategy can guarantee a profit or protect against loss.



- 1929 Peak of bull market – Dow Jones Industrial Average 381.17
- 1930 Smoot-Hawley Tariff – cuts world trade
- 1932 Bottom of Great Crash – Dow Jones Industrial Average 41.22
- 1933 Gold standard dropped in U.S.
- 1934 Securities Exchange Act
- 1939 World War II begins in Europe
- 1941 Pearl Harbor – U.S. declares war
- 1942 First nuclear chain reaction
- 1944 Bretton Woods international monetary accords
- 1946 Post-war recession begins
- 1947 General Agreement on Tariffs and Trade (GATT)
- 1950 Troops sent to Korea
- 1952 Steel labor dispute – U.S. seizes mills
- 1953 U.S. Treasury – Federal Reserve Accords
- 1957 Sputnik launched
- 1958 First U.S. earth satellite
- 1961 Bay of Pigs
- 1962 Cuban missile crisis
- 1963 President Kennedy assassinated
- 1967 Six-Day War in Middle East
- 1968 Tet offensive by Communist forces in Vietnam
- 1969 Neil Armstrong first man on moon
- 1972 Gold window closed
- 1973 Araboilembargo – oil prices triple
- 1974 President Nixon resigns
- 1975 May Day – deregulation of securities brokerage fees
- 1984 AT&T divestiture
- 1985 Oil prices collapse
- 1987 Stock market crash
- 1989 Berlin Wall opened
- 1990 Mutual fund total assets hit \$1 trillion
- 1991 Gulf War
- 1993 U.S. Congress passes North American Free Trade Agreement (NAFTA)
- 1994 U.S. Congress passes GATT World Trade Agreement
- 1999 Dow Jones Industrial Average surpasses 10,000
- 2001 September 11th terrorist attack – U.S. combats terrorism
- 2002 Sarbanes-Oxley Act – redesigns federal securities law
- 2004 Enormous tsunami devastates Asia
- 2008 The price of oil hits \$140/barrel
- 2008 Lehman Brothers collapse
- 2010 Quantitative Easing - part 2
- 2011 Enormous tsunami devastates Japan

Past performance is no guarantee of future results. Hypothetical value of \$1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2011 Morningstar. All Rights Reserved. 3/1/2011

Ibbotson® SBBI® 1926–2010

An 85-year examination of past capital market returns provides historical insight into the performance characteristics of various asset classes. This graph illustrates the hypothetical growth of inflation and a \$1 investment in four traditional asset classes over the time period January 1, 1926, through December 31, 2010.

Large and small stocks have provided the highest returns and largest increase in wealth over the past 85 years. As illustrated in the image, fixed-income investments provided only a fraction of the growth provided by stocks. However, the higher returns achieved by stocks are associated with much greater risk, which can be identified by the volatility or fluctuation of the graph lines.

Government bonds and Treasury bills are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than the other asset classes. Furthermore, small stocks are more volatile than large stocks, are subject to significant price fluctuations and business risks, and are thinly traded.

About the data

Small stocks in this example are represented by the fifth capitalization quintile of stocks on the NYSE for 1926–1981 and the performance of the Dimensional Fund Advisors, Inc. (DFA) U.S. Micro Cap Portfolio thereafter. Large stocks are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. Government bonds are represented by the 20-year U.S. government bond, Treasury bills by the 30-day U.S. Treasury bill, and inflation by the Consumer Price Index. Underlying data is from the Stocks, Bonds, Bills, and Inflation® (SBBI®) Yearbook, by Roger G. Ibbotson and Rex Sinquefeld, updated annually. An investment cannot be made directly in an index.

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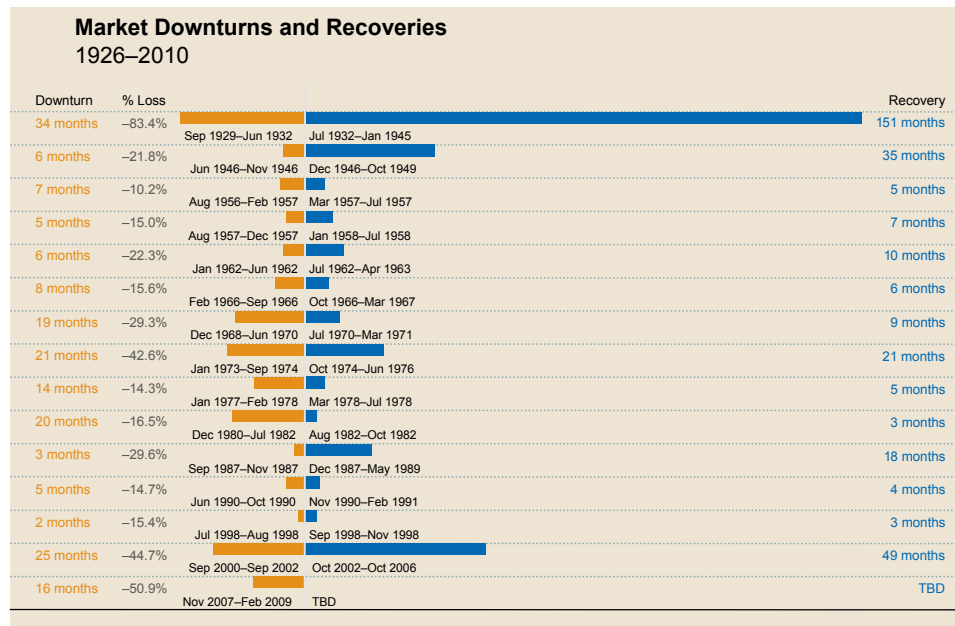
Anatomy of a Market Decline

Market declines can be unsettling for investors

Since 1926, the S&P 500 has dropped by 10% or more on 15 different occasions and 20% or more on eight occasions. During each of these declines, nervous investors have worried and wondered if the stock market could ever recover after falling so far in such a short amount of time. Despite a lot of negative talk and pessimism from so-called financial experts claiming, “Well! THIS time it’s different,” the market has always rebounded to new highs. Sure, in many cases it took more patience and time to get back lost gains, but in each case we did. It is tough to keep perspective and focus on the big picture during difficult times like these. Considering the points below can help prevent you from making rash or emotional decisions.

History shows that market downturns were followed by upswings

The chart below shows that over time, drastic downturns in the stock market have usually been followed by long periods of recovery. Consider that the average duration of past market downturns was 12.5 months, excluding the Great Depression, when the average downturn was just under 11 months. The average recovery for the market was 23 months.



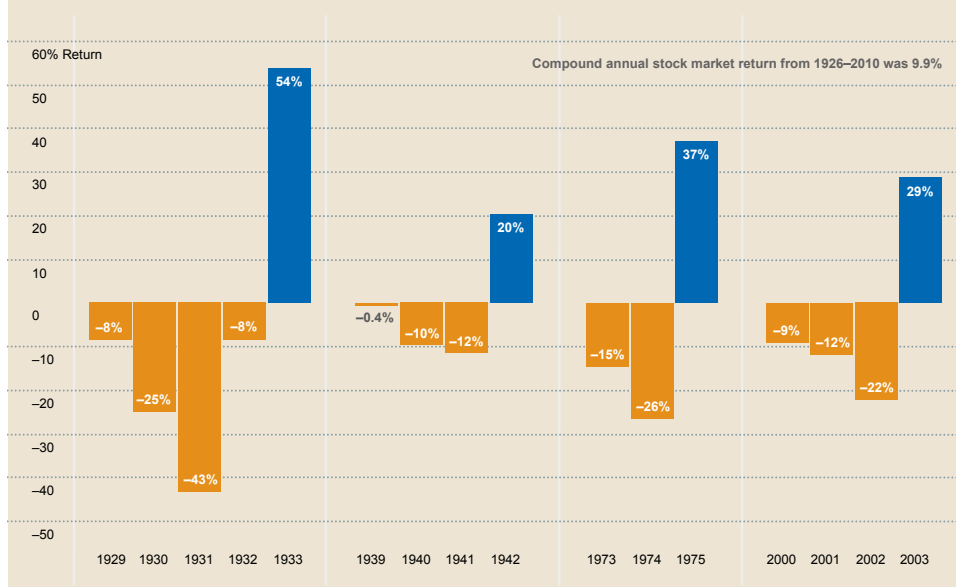
Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Downturns defined by a time period when the stock market value declined by 10% or more from its peak.

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Stocks in this example are represented by the Standard & Poor’s 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.

Over the past 80 years, consecutive periods of negative returns have always been followed by strong market upswings. The chart below shows that after several periods of consecutive negative years, the market rebounded positively. The average gain in these recovery years was 37.3%, compared to the long-run S&P 500 return of 10.4%. Investors on the sidelines may have missed out on these exceptional returns.

Periods of Consecutive Negative Stock Returns 1926–2010



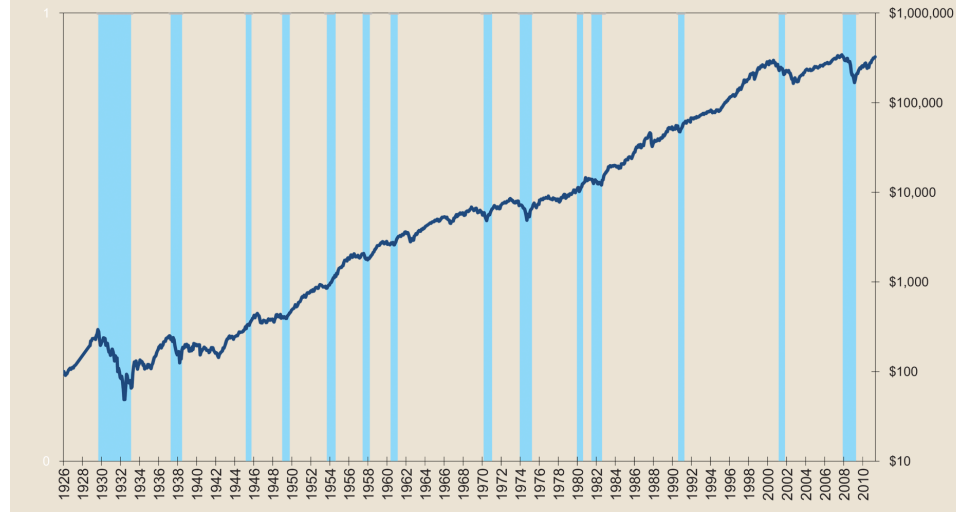
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Investors have benefited from investing during a recession

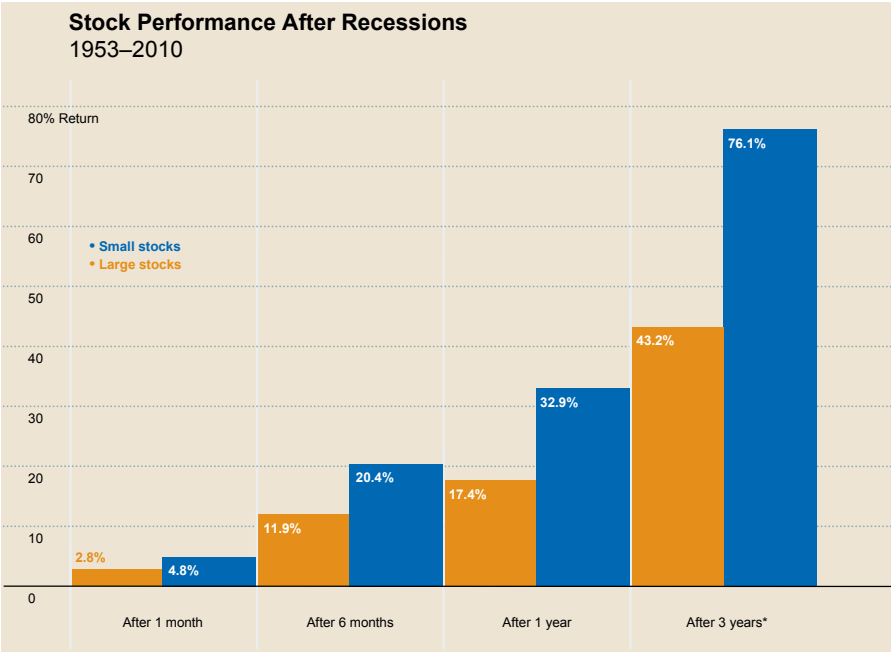
Some investors may take a pause in investing while the economy is in a recession. The U.S. economy has gone through 10 recessions in the past 50 years. Looking back at past stock performance during recessions, we see that stocks always came back quickly, even during times when the economy was officially in a recession. According to Birinyi Associates, Inc., stocks tend to hit the bottom two-thirds of the way into a recession. This pattern demonstrates that selling out of positions while in a recession would be an ill-advised strategy that would cause investors to miss the post-recession market correction.

Post-recession stock performance has also shown exceptional returns over time for both small and large stocks.

Stock Performance During Recessions 1926 - 2010



Growth of \$100: S&P 500 total return Jan 1926 - April 2011 (Log Scale) Shaded areas represent economic recessions. Hypothetical value of \$100 invested at the beginning of 1925. This is for illustrative purposes only and not indicative of any investment.



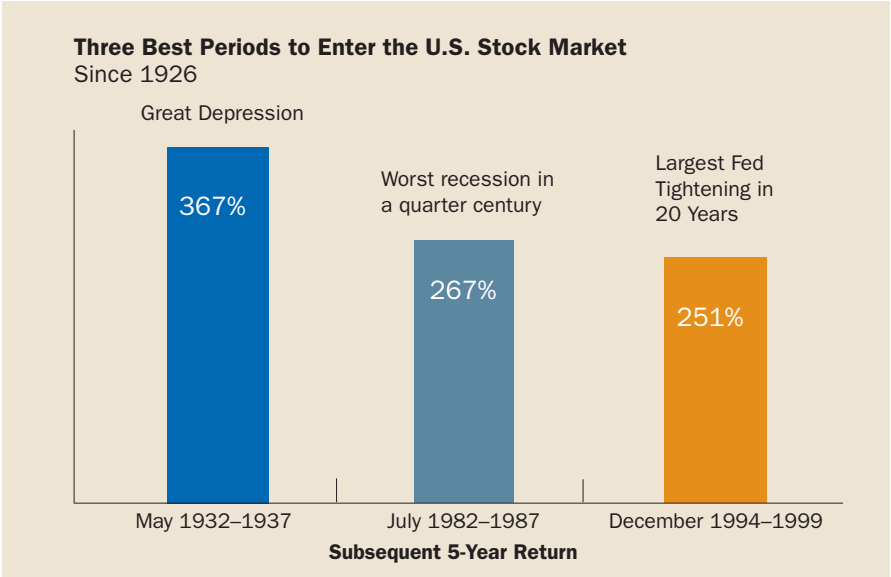
Past performance is no guarantee of future results. Cumulative returns of large and small stocks after recessions 1953–2010. *The “After 3 years” average does not include the recession that began in December 2007. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. ©2011 Morningstar. All Rights Reserved. 3/1/2011

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Troubling economic times can prove good for investors over time

The recent decline in the stock market should serve as a reminder that, historically, some of the best times to have entered the market have been during extremely dark periods with high volatility:

- The best five-year return in the S&P 500 since 1926 actually started during the Great Depression when stocks rallied 367% from May 1932 to May 1937.
- The second best five-year period began in 1982, during an economy experiencing one of its worst recessions since World War II and featuring double-digit levels of unemployment.
- The third period occurred during the 1994 Federal Reserve rate tightening that sent the dollar in a downward spiral.



Source: Morningstar Encorr



Investing in a down market can be right, even though it feels wrong

As you can see, historically, the worst time to get out of the market has been when it has fallen significantly. In fact, the stock market has tended to make significant gains following a recession or economic downturn. Investors who bought into the market during troubled economic times enjoyed above-average returns over the following five years. While it may be painful or seemingly go against our instinctual reaction to a loss, economic downturns may be a good time to invest.

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