

THE RETIREMENT INCOME COMPASS

BECAUSE THERE ARE BIG RISKS ON THE ROAD AHEAD

Navigating Challenge/Compass Advantage

The Historical Stock-Market Weather Chart; It Will Help You Deal with the Market's Ups & Downs.

A picture is worth a thousand words

Sixty Years of Stock Market Storms and Fair Weather

Market Cycles Defined by S&P 500 Index Total Return %

Stormy Cycles				Fair Weather Cycles		
Period	Months	Loss		Gain	Months	Period
11/48—6/49	8	-10%		429%	97	7/49—7/57
8/57—12/57	5	-15%		105%	48	1/58—12/61
1/62—6/62	6	-22%		90%	43	7/62—1/66
2/66—9/66	8	-16%		52%	26	10/66—11/68
12/68—6/70	19	-29%		76%	30	7/70—12/72
1/73—9/74	21	-43%		86%	27	10/74—12/76
1/77—2/78	14	-14%		86%	33	3/78—11/80
12/80—7/82	20	-17%		282%	61	8/82—8/87
9/87—11/87	3	-30%		71%	30	12/87—5/90
6/90—10/90	5	-15%		345%	90	11/90—4/98
5/98—8/98	4	-13%		63%	24	9/98—8/00
9/00—8/02	25	-45%		105%	61	9/02—10/07
11/07—2/09	16	-53%		54%	10	3/09—12/09
13 Cycle Avg.	12	-25%		142%	45	13 Cycle Avg.

Source: Ibbotson SBBI Yearbook. Past performance is not indicative of future results.

The Stock-Market Weather Chart

The historical stock-market weather chart gives a visual of the S&P 500 stock market index's swings between Stormy (down market) cycles and Fair Weather (up market) cycles over the past sixty years. Each line displays a Stormy Cycle followed by a Fair Weather Cycle and shows the period, months, loss % or gain %, and a bar representing the relative loss or gain in the cycle.

Stormy Cycles. The left side of the chart presents 13 stormy cycles. The last Stormy Cycle started November 2007 and ended February 2009, lasted 16 months, and had a drop of 53% in the value of the S&P 500.

Fair Weather Cycles. The right side of the chart presents 13 Fair Weather cycles. The current cycle started in March 2009, has lasted 10 months to-date and is up 54% through December 2009. Can this cycle last 45 months and rise 142%, the averages of the previous 12 Fair Weather cycles?

The Challenge

On average, every 45 months the stock market has headed into stormy weather. Sometimes the storm's over quickly. At other times recovery can be painfully long. The unprepared can be tempted to 'jump ship' from their stock allocation in storms, just as they often let allocation to stocks increase in periods fair weather.

Considering the periodic discomfort, why should you allocate a portion of your retirement portfolio to stocks? Because to provide adequate income during retirement you need your savings to grow during your working years, and throughout retirement. 'Safe' investments like bonds, CDs, and money market cannot be expected to provide 'real' growth after inflation and taxes.

An investment advisor as navigator will help you and your retirement income portfolio through storms and fair weather using the weather chart among many other tools.

What will it take to get back to even?

During the latest Stormy Cycle from 11/07 thru 2/09 the S&P 500 stock Index dropped 53%. During the current Fair Weather Cycle from 2/09 thru 12/09 the index gained 54%.

The percentages being close to even might lead one to think the stock index is back to even. Is it? Hardly.

What will it take? Let's look, using dollar values:

- Starting value \$100,000
 - 53% loss = \$53,000
 - Ending balance: \$47,000
 - It will take \$53,000 to get back to even.
 - $\$53,000 \div \$47,000 = 113\%$
- It will take a rise of 113% to get the index up 54%, about half way.

If the index meets its cycle averages during the remainder of the current Fair Weather Cycle, it will rise 38% over the next 35 months.



What to know... and how to go

Madden Funds Management, Ltd.

an independent, fee-only financial advisor

1010 Lake Street, Suite 604
Oak Park, IL 60301

Phone: (708) 848-3200

Web: maddenfunds.com

E-mail: maddenfunds@mac.com

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