



FINANCIAL SYNERGIES ASSET MANAGEMENT, INC.

January 21, 2010

Dear Client,

The past two days have seen losses in the Dow Jones Industrial Average of 122 points on Wednesday and 213 points on Thursday.* And since the downturn of 2008 and early 2009 is so fresh on most investors' minds, two consecutive days of nasty returns have a tendency to cause fears about a possible "correction" to bubble up.

To be clear, the purpose of this message is not to predict whether or not a correction started yesterday. However, it would be naïve to believe that the market can continue going straight up forever. After all, the Dow Jones is up 66% from its bottom on March 9th*, and no recovery in history has occurred without any dips along the way.

But predicting precisely when a correction will occur is an impossible challenge, as evidenced by the innumerable pundits who have been warning for months that a correction is imminent. To the surprise of these market prognosticators, the market has continued its screaming recovery for nearly a year. If an investor had listened to those claims when they first started back in May and June of 2009, they would have missed out on the majority of this amazing recovery.

So the purpose of our note today is to convey two points:

1) Corrections (or "breathers", or "dips", or whatever you want to call them) are a natural and *expected* part of any recovery, and

2) Corrections actually come with a few silver linings, as I wrote about in an article in our 2009 Q3 newsletter. Here's why:

- **Corrections push speculators out of the market.** If you agree with some pundits that the market has recovered too much too fast, then a correction is an effective way to deal with the speculators that create frothy markets. A correction could push these speculators out and allow the market to build on a stronger foundation for long-term growth.

- **Corrections give cash on the sidelines a chance to "get back in".** Investors who were scared out of the market in 2008 have missed the over-60% rebound mentioned above. Many of those investors want to return to the market but are afraid to buy at what they perceive as a high. A correction would give them a chance to buy at what they perceive to be a better price. (Of course, this assumes they have the discipline to buy when stocks are declining.) Demand from a greater number of participants gives the market a better chance for a sustained, more meaningful recovery.

- **Corrections create rebalancing opportunities.** If a correction is deep enough, we are often able to exploit the downturn by adding to positions while they're down. Since we are all long-term investors, these dips allow us to buy at lower prices, providing a more robust return over the long-run. To use an old Wall Street proverb, "Buy your

straw hats in the winter."

Finally, we recognize that no one likes to lose money, no matter how short-lived the loss. But when we do experience a downturn, we encourage you to take a long-term perspective as you did during the darkest days of 2008. Indeed, long-term investors succeed because they understand that markets have ups and downs. No one knows the short-term direction of the market (as we reiterate as often as we get the chance), but we are confident in our investment approach and the fund managers we employ. What better time to have a thoughtful and detailed investment plan than during times of uncertainty and volatility?

Sincerely,

Bryan D. Zschiesche, CFP[®], MS, MBA
Financial Synergies Asset Management, Inc.



* **Source:** Morningstar Direct