DUNHAM
Trust and Investment Services

Calm, Steady and Common Sense Series

Lessons Learned from the Financial Crisis of 2007-2008

White Paper

The **Calm, Steady & Common Sense Series** explores how using emotion as your investment guide could cost you return on your investments.

The Lessons Learned from the Financial Crisis of 2007-2008 white paper discusses how getting lost in the headlines created by significant drops in the stock market could cause investors to make impulsive investment decisions. We will explore why that may not be the best course of action.

Famed investor Sir John Templeton once said that the four most dangerous words in investing were, "This time it's different."

In this statement lies possibly one of the most important lessons learned from the Financial Crisis of 2007 – 2008.

On October 9, 2007, the S&P 500 hit a new high. From that high, the United States would experience the impact of the Financial Crisis of 2007 – 2008, which in our view, was one of the most severe threats to the U.S. economy since the 1929 Great Depression.

The S&P 500 would suffer the second worst decline in its history, marked by significant losses for six consecutive quarters.[1]

This period was marked by a nervous stock market and apprehensive investors.

The general feeling that we were in a tumultuous time was not uncommon as the media drew many comparisons to the Great Depression. At that time, the sense that "this time was different" and that the stock market and the economy had entered a "New Normal" was more prevalent than any other time.

How bad was the stock market at this time? Below are the quarter-by-quarter returns for the S&P 500 during the Financial Crisis as well as the period after.

S&P 500 from October 1, 2007 through December 31, 2017

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007				-3.33%
2008	-9.44%	-2.73%	-8.37%	-21.94%
2009	-11.01%	15.93%	15.61%	6.04%
2010	5.39%	-11.43%	11.29%	10.76%
2011	5.92%	0.10%	-13.87%	11.82%
2012	12.59%	-2.75%	6.35%	-0.38%
2013	10.61%	2.91%	5.24%	10.51%
2014	1.81%	5.23%	1.13	4.93%
2015	0.95%	0.28%	-6.43%	7.03%
2016	1.35%	2.46%	3.85%	3.82%
2017	6.07%	3.09%	4.48%	6.64%

Source: Dunham and Associates Investment Counsel, Inc. January 2018

As we entered the fourth quarter of 2007, you would have been able to invest in a United States Treasury bond that matured in 10 years at approximately a 4.59% yield*.

Suppose your objective was to maximize growth, based on the numbers above, which would you have chosen - the Treasury bond at 4.59%, allowing you to altogether bypass the effect of the Financial Crisis on the stock

*Source: Federal Reserve's H.15 May, 2022

market or would you choose the S&P 500 as it was about to enter the second worst decline in its history?

Based on the 4.59% yield, $100,000 invested in the U.S. Treasury bond would have grown to $156,587.21 by September 30, 2017.

You would have achieved this with little volatility.

However, had you instead invested in the S&P 500 over the same ten-year period, you would have experienced an annual compounded rate of return of 7.43% despite the stock market declines.[2]

This return means that a hypothetical $100,000 placed in an investment that was able to generate the returns of the S&P 500 would have been worth $204,777.16 in that same 10 year period that the U.S. Treasury would have grown to $156,587.21.

That is an additional $48,189.94 per $100,000 invested.[2,3] Of course, you would have achieved this return with more volatility than the bond and perhaps a few sleepless nights.

While every market is different, and past performance is not an indication of future results, what we learned from the 2007- 2008 Financial Crisis was that this time was not different. There was not a “New Normal” And the stock market and the economy did recover.

However, in our view, the most important lesson learned was that getting lost in the headlines and perhaps making impulsive investment decisions when markets are down may not be the best course of action.

What if, on October 1, 2007, during the euphoria of the stock market hitting new highs, you had invested $100,000 in an investment that was able to generate the returns of the S&P 500?

And, what if by the end of March 2009, with all of the doom and gloom in the headlines, and with the market in what seemed to be a free fall, you decided to sell out of your entire equity portfolio? By the end of March 2009, your hypothetical $100,000 would have been worth $54,236.85.[2]

At that point, you could have invested in a ten-year U.S. Treasury bond at a 2.66% yield. Had you placed your money there, by the end of March, 2019 it would be worth $130,057.46.[2]

Instead, if you had stayed with your equity investment, by March 31, 2019, you would have had $237,412.10. That suggests a difference of $107,354.64 for every $100,000 invested.[2]

Some investors may find it difficult to be optimistic as the stock market declines. We certainly understand this. The key is *not to panic* and to understand that there is possibly some better days on the horizon.

Sources:

(1) Global Financial Data, msnbc.com research May, 2022

(2) Bloomberg and Dunham & Associates Investment Counsel, Inc. March 2019

(3) U.S. Department of Treasury and Dunham & Associates Investment Counsel, Inc. May, 2022

Disclosures

Investments are subject to risks, including possible loss of principal. Investors should consider the investment objectives, risk factors and expenses of any investment carefully before investing. Diversification does not guarantee profit or ensure against loss.

A bull market indicates a sustained increase in price, whereas a bear market denotes sustained periods of downward trending stocks - typically 20% or more. The term “bull vs bear” denotes the ensuing trends in stock markets - whether they are appreciating or depreciating in value - and what is the investors’ outlook about the markets in general. Bull markets generally coincide with periods of robust economic growth; investor confidence is on the rise, employment levels are generally high, and the economic production is strong. During the bearish phase, companies begin laying off workers, leading to a rise in unemployment and, consequently, an economic downturn.

No investment strategy or risk management technique can guarantee returns or eliminate risk in any market.

The S&P 500, or the Standard & Poor’s 500, is a stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 Index components and their weightings are determined by S&P Dow Jones Indices. It differs from other U.S. stock market indices, such as the Dow Jones Industrial Average or the Nasdaq Composite index, because of its diverse constituency and weighting methodology. It is one of the most commonly followed equity indices, and many consider it one of the best representations of the U.S. stock market, and a bellwether for the U.S. economy.

The Dow Jones Index is an index of certain stock prices on the New York Stock Exchange, computed by the Dow Jones Publishing Company as a weighted average of the prices of specific stocks in certain categories. Three indices are maintained, the Industrials, the Transportations and the Utilities. When used without qualification, the term usually refers to the Down Jones Industrial Average.

NASDAQ Composite Index: A market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks.You cannot invest directly in an index.

All examples are hypothetical and are for illustrative purposes only. We encourage you to seek personalized advice from qualified professionals regarding all personal finance issues. The solution for an investor depends on their and their family’s unique circumstances and objectives. No two markets are the same and past performance is not an indication of future results.

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