A Bet on The Market …….. *A Good Bet*

** This is an excerpt from Genworth Financial Advisers Corporation Portfolio Advisory Services (PAS) Investment Committee Newsletter*

In most industries, if you are hardworking, intelligent, and have a bit of luck, success usually follows. In the investment industry, however, research shows that you maximize your chances for long-term success by relying on the market and its efficiency, and staying fully invested even during market downturns. Market Timing and taking time out of the market are losing strategies.

Market Timing and Missed Opportunities

The belief that you or a talented financial manager can foresee the direction of the stock market is seductive. Some investors, known as market timers, are confident that with proper research they can make money by snapping up equities when prices are low, and shifting their investments into cash or bonds when the market hits its peak. But studies show that when market timers dip in and out of the market, they not only fail to beat the market, but also actually earn less over time than buy-and-hold investors. For example, Dalbar, Inc., a financial services market research firm, concluded in a 2005 study that market timers in equity or stock mutual funds lost an average annualized return of -2.8% per year over the past two decades (1985 – 2004). In contrast, over that same period of time, Standard and Poor's 500 Index (S&P 500 Index) grew by 13.2%, and the average equity fund investor who stayed invested earned 3.7%. As a result, the firm's researchers concluded that market timers fare worse than the average investor, and the average investor actually benefits from the losses of market timers.

Growth of a $10,000 Portfolio
(Jan. 1, 1985 - Dec. 31, 2004)

	20-Year Period Avg. Annual Total Return	Portfolio Value After 20-year Period
S&P 500 Index	13.2%	$119,379
Average Equity Fund Investor	3.7%	$20,681
Market Timer Equity Fund Investor	-2.8%	$5,666

This chart shows the total return and portfolio value of a hypothetical $10,000 investment made on Jan. 1, 1985 and invested through Dec. 31, 2004. Total returns include reinvestment of dividends and capital gains realized over a given period and are net of all fees and expenses. The Standard and Poor's 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation, and it is meant to reflect the risk/return characteristics of the large-cap universe. It is an unmanaged index and cannot be purchased directly by investors.

Source of data: Dalbar, Inc., QAIB Advisor Edition 2005

Taking Time Out Is a Losing Strategy

Most investors, naturally, want to sell and take their profits when they believe stocks have reached their peak. But investors run a big risk when they do this. They may turn a profit when they cash in their equity holdings, but they could also miss out on some of the markets' returns. Over time, a portfolio's total return can be decimated by being absent for short periods from the market when it experiences its highest percentage gains.

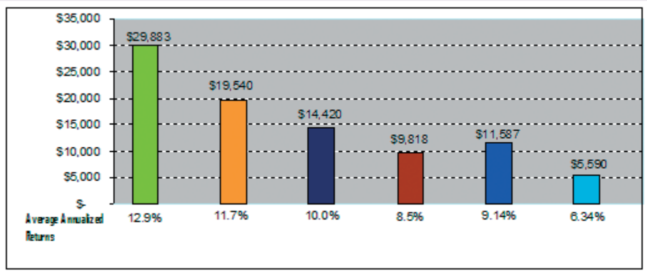
To reap the benefits of the stock market's returns, ***it is important to stay fully invested.***

This is often a difficult decision to make when the stock market appears to be retreating. A money management program must be utilized that provides investors with the discipline required to remain in the market, even when the temptation to sell may be great.

The graph below illustrates the possible effects of choosing to get out of the market at the worst possible times. If you had invested $1,000 in the S&P 500 Index for the 28-year period between Dec. 31, 1975 and Dec. 31, 2003, your investment would have grown to $29,883 before taxes! However, if you had taken your investment out of the market when the market experienced its **five best days**, your investment would have only been worth $19,540 before taxes.

Graph 7:

Hypothetical growth of $1,000 investment over 28-year period 12/31/75 – 12/31/03



If you ….

- Stayed Invested
- Missed the Top 5 Days
- Missed the Top 15 Days
- Missed the Top 25 Days
- Bonds
- T-Bills

The chart shows the results of a $1,000 hypothetical investment in the S&P 500 Index on 12/31/75 held through 12/31/03 compared to similar hypothetical investments in the index that were not invested on the days that were the market highs during the period. For comparison, an investment in bonds is shown, represented by the Lehman Aggregate Bond Index. An investment in T-Bills is represented by the Ibbotson U.S. 30-Day T-Bill index. Indices are unmanaged and cannot be purchased directly by investors.

Source of chart data: Ned Davis Research, 12/31/03.

Betting Against an Efficient Market Is a Bad Bet

The reason that market timing and taking time out of the market are losing strategies is that the investment market is efficient. This means that the prices of individual securities reflect information about past events and expected future events. Economist Eugene Fama explained the concept of efficient markets this way:*

"An 'efficient' market is defined as a market where there are large numbers of rational, profit-maximizers actively competing, with each trying to predict future market values of individual securities, and where important current information is almost freely available to all participants. In an efficient market, competition among the many intelligent participants leads to a situation where, at any point in time, actual prices of individual securities already reflect the effects of information based both on events that have already occurred and on events which, as of now, the market expects to take place in the future. In other words, in an efficient market at any point in time the actual price of a security will be good estimate of its intrinsic value."

In conclusion, rather than attempting to outfox an efficient market, most investors are generally better off taking a buy-and-hold approach and using a passive strategy designated to capture the returns of a diversified, structured portfolio. An advisor can assist you in clarifying your investment goals, and developing strategies for building wealth over time. Your adviser will help you to take into account your investment horizon, general risk tolerance, and will help you to create a portfolio with an investment mix appropriate to your circumstances. While it makes sense to revisit your investment choices periodically, any subsequent changes in strategy and asset rebalancing should be made with a long-term view.

* Eugene F. Fama, "Random Walks in Stock Market Prices," Financial Analysts Journal, September/ October 1965 (reprinted January-February 1995). Eugene F. Fama is the central scholar whose groundbreaking work inspired the founding of the Dimensional Fund Advisor firm. The author of the efficient markets hypothesis that underlines all of Dimensional's products, Professor Fama helped develop the firm's process, continues to supply key research, and helps keep the firm abreast of research in academia. Widely perceived as the "father of modern finance," he has brought an empirical and scientific rigor to the field of investment management, transforming the way finance is viewed and conducted.

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