SWFG: Crying In the Middle

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“We have seen this movie before and we know how it ends, yet we still cry in the middle every time.”
- E. Graham Holloway (1930-2009), Capital Group Executive

Which one is it for you? Old Yeller? Ghost? Shawshank Redemption? Terms of Endearment? E.T.? You know there is one movie that gets you choked up inside every time and yet you know how the film ends. How is that possible? This phenomenon is not too different in how many investors react to the equity markets over long periods of time.


Fritz, age 10

It also reminds me of youth lacrosse. I helped coach the team that my youngest son, Fritz, played on as he was growing up. Like other sports, if the kids consistently practice at home their improvement will be geometrical. Every practice I reminded the boys, especially the new players, of the importance of practicing at home. I told them that I have seen this “movie” over and over again and I know how it ends. One year, there was a boy named Chase who came to the team as a new player having never picked up a lacrosse stick in his life. His inexperience at the first practice was glaring. He took our “practice at home” advice to heart and four weeks later he was a completely different player. I cried tears of joy in the middle of the season for this young man. He believed, without any guarantees, in the end of the movie and it paid off for him.

We are coming off a poor start to the year in the markets. Though, interestingly, we have not even had the historical AVERAGE intra year decline since 1980 of 14%*. Ben Casselman of Fivethirtyeight.com wrote the following on the market volatility in 2016 (we can also add 2018 and 2020 in this list):

"Set aside the psychological importance of the New Year and what we're really talking about is a market that lost 9 percent in 12 trading days (as of the end of Wednesday). That's hardly unprecedented. We had equally bad 12-day stretches in 1950, 1955, 1957, 1962, 1966, 1970, 1973, 1974, 1978, 1979, 1981, 1987, 1997, 1998, 2000, 2001, 2002, 2008, 2009, 2011 and 2015. That list includes some brutal recessions and memorable crashes, but also several incidents that proved little more than blips."

Our average client’s age is somewhere in the mid to upper 60s. Looking at a 20-year time horizon is a reasonable time frame for the vast majority of our clients. I looked at the above years that experienced sudden drops in the market and ran illustrations of what the S&P 500 results were 20 years AFTER investors “cried in the middle” of the movie. The results were the following:

20 Year Period	S&P 500 Avg. Annual Return		20 Year Period	S&P 500 Avg. Annual Return		20 Year Period	S&P 500 Avg. Annual Return
1950-1970	13.4%		1973-1993	11.3%		1997 – 2017	7.20%
1955-1975	6.8%		1974-1994	12.7%		1998 – 2018	5.62%
1957-1977	7.9%		1978-1998	16.6%		2000 – 2020	7.47%
1962-1982	6.8%		1979-1999	17.7%		2001 - 2021	9.52%
1966-1986	8.7%		1981-2001	15.6%			
1970-1990	11.6%		1987-2007	11.7%			

In fact, I looked at ALL 20 year rolling periods going back to 1/1/28. The three worst 20-year periods in the history of the S&P 500 were:

20 Year Period	S&P 500 Avg. Annual Return		20 Year Period	S&P 500 Avg. Annual Return		20 Year Period	S&P 500 Avg. Annual Return
1928-1948	4.7%		1929-1949	3.1%		1930-1950	4.4%

All of the previous three occurred during the depression. The next worst 20-year period was 1998 – 2018 mentioned above which averaged 5.6% per year. Not stellar results, but your money would have almost tripled over 20 years.

After the recent downturn in the U.S. and global stock markets, you can be pardoned if you wished that the markets were a bit tamer. Wouldn't it be nice to get, say, a steady 4% return every year rather than all these ups and downs? The fact that stock downturns scare people is one reason why stocks have historically delivered a higher return than bonds. Economists call it the "risk premium;" which can be roughly translated as: people are not willing to pay as much for an investment that will periodically frighten them to death as they would pay for an investment that delivers a less exciting investment ride.

If you're accumulating for retirement by putting money in the market every month or quarter, every downturn means that you can buy shares at a lower price while many other investors are selling out at or near the bottom. Over time, as the market recovers, this can give a little extra kick to your overall return.

If you are an investor that is taking income in retirement these downturns are more challenging. We have meaningful conversations with you to determine how much income we may need from a portfolio in a given year. We then attempt to navigate these downturns through the portfolio allocation we have built for you, as well as maintaining enough cash on hand so we do not have to sell funds during a downturn.

There's no question, the downward plunge on the stock market roller coaster is scary. It's hard to maintain your discipline when the voice in the back of your brain and the press is telling you to bail out on the bouncy trip before somebody gets hurt. (Read an outstanding article – "Why does Pessimism Sound So Smart?")

But unless this is the first time in history that the market goes down and stays down forever, we will ultimately look back on the decline and see a buying opportunity, rather than a great time to sell and jump to the sidelines. The patient, disciplined, long-term investor should see market volatility as one of your best friends and allies in your journey toward retirement prosperity.

Warren, Jacob and I have a plethora of clients who have shed their share of tears in the middle of the movie. The vast majority stuck with the plan and have been rewarded.

Can you pass the popcorn and the tissues? I think I have a tear in my eye.

Thank you for the trust and confidence you have placed in us and giving us the opportunity to provide education to you on your way to building your wealth.

As always, thank you for the introduction of your friends and family that so many of you have made. We are honored to serve you! As a service to our clients, we are happy to act as a sounding board for your friends and family. If any of them should need a second opinion on their financial situation, introduce them to **www.striblingwhalen.com** or call us at 678-989-0048.

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