SIGNATURE RESOURCES
CAPITAL MANAGEMENT

Commentary: December 2019

HYPOTHESIZING RETIREMENT

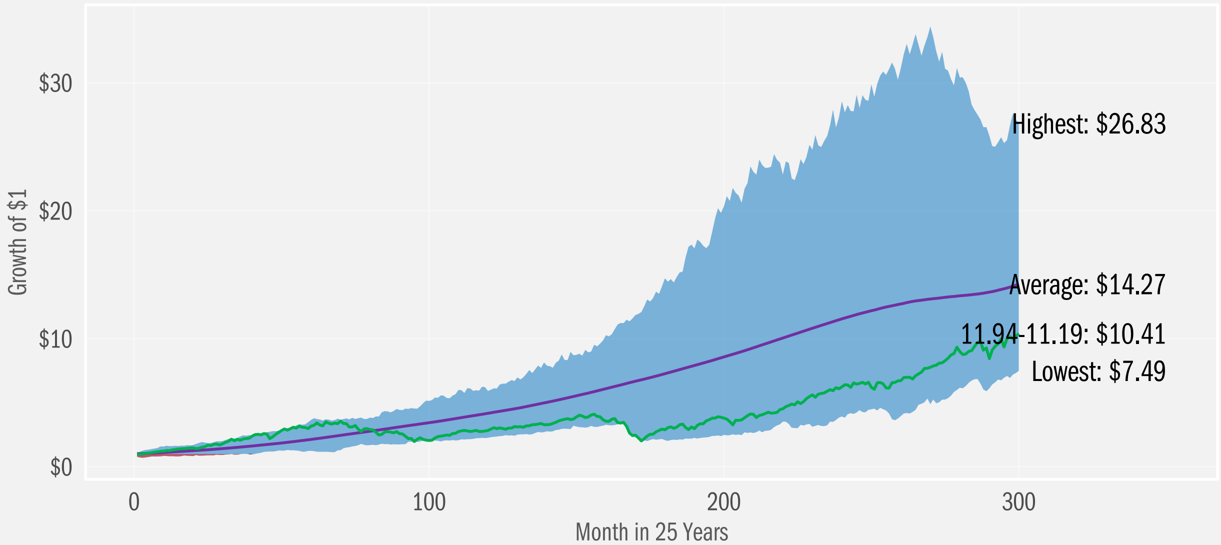
Investment hypotheticals are imaginary scenarios of portfolio returns. Summaries of theoretical past or future circumstances, they may serve as powerful tools for instruction, in particular we think when the goal is as much to convey *how* the investment math works as it is to convey the *results* of that math. Helping folks think through the arithmetic of retirement planning is one such effort for which we think examples of and discussions over such what-ifs can be truly impactful. Starting with the "accumulation" phase of investment, this month's commentary is the first in a three-part series we'll pen to illustrate that math.

Product of Patience

We find it helps to see investing as a series of multiplications. Take a starting value of $1 and multiply the subsequent market returns to see how that portfolio grows. More often than not, we find, such observations are offered over a single time frame. For example, if you started investing in the S&P 500 at the end of 1976, you'd have a bit more than $84 at the end of last month. We also might like to think about a typical investment time horizon. For example, we might look at all the 25-year periods over which one might have been invested and see what sorts of outcomes one might have experienced. We offer that "rolling period" review of returns to the S&P 500 Index in Figure 1.

Figure 1: Range of 25-Year Outcomes of Growth of $1 Invested in the S&P 500

Looking forward 25-years from each month since 12.31.76 (there have been 216 25-year periods through the last one beginning 11.30.94), the range of 25-Year returns for the S&P 500 has been wide



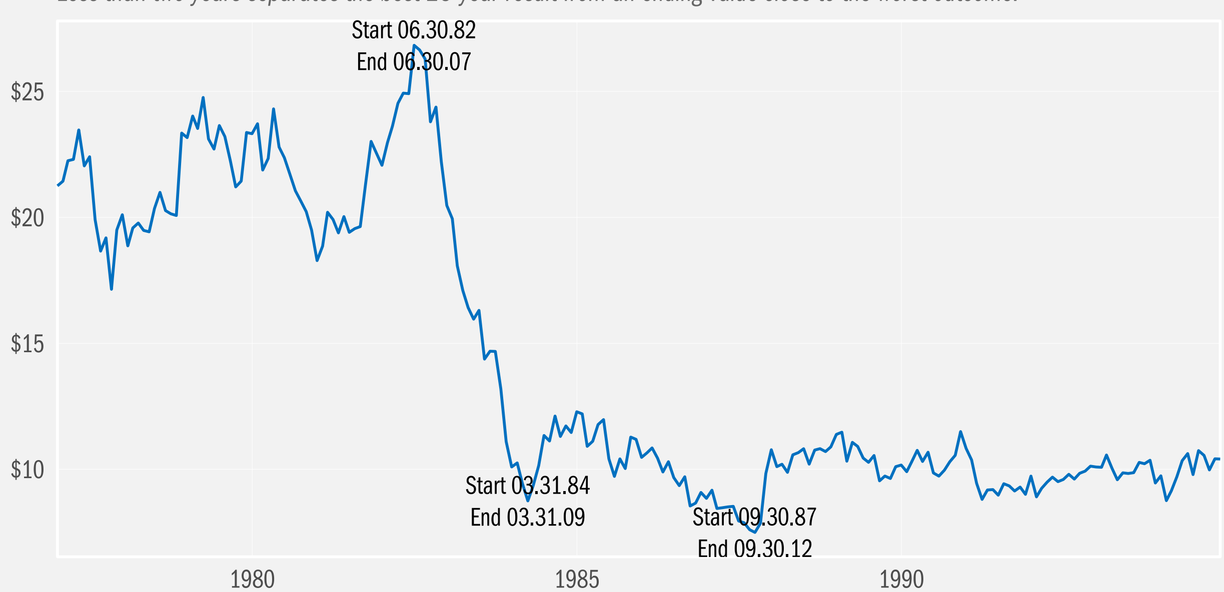
From 12.31.76 to 11.30.19. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

What we hope to achieve by complicating, as it were, a more conventional presentation is to show that there would have been a wide range of outcomes to have been achieved were one to have invested in the S&P 500 Index for 25 years. All depends on when those 25 years started. This fact might not seem so obvious, considering the entire time frame is just 43 years (November 1976 through November 2019). But when we chop up returns over those 43 years into months, and further look forward 25-years from the end of each month since 1976, that's just what we see: From an initial $1 invested, one might have seen that $1 turn into more than $26 (from June 1982 to June 2007) or a relatively less substantial $7.49 (from September 1987 to September 2012).

Again, the range of outcomes is entirely dependent on the months that bookend the hypothetical 25-year investment period (and all that happens in between, of course). If, instead of looking at the range of values in the interim and only look at the ending values based on when we made the initial investment, we can see some key periods during which a difference of even a few years in the starting investment date matter greatly in regard to the eventual outcome. In Figure 2 we show the final values achieved for each of those 25-year periods over time. Note that the peak value mentioned earlier of more than $26 might have been achieved only 21 months before a result ended March 2009 that ranks among the worst outcomes. While both periods "survived" the market crash of October 1987 and the Technology Bubble's burst in 2001, the former ended at the market peak just prior to the Financial Crisis, while the latter finished at the very trough of the market during the Crisis.

Figure 2: Rolling 25-Year Growth of $1 invested in the S&P 500 Index

Less than two years separates the best 25-year result from an ending value close to the worst outcome.



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More Than Multiplication

Basing one's estimations for the future on returns of the past may lead to unreasonable expectations unless one also properly sets a *range* of potential outcomes. While we as investors have rare control over most of the events that shape our investment time horizons, we should have some control over the actions that we take in advance of and in response to such events. We cannot choose when we are born or when we die. Nor can we choose how the market will evolve during our investment lifetimes. How we generate investable income is both up to us and dependent on the universe in many ways. Nevertheless, we have some manner of ability to decide when we might begin to invest. And we should have great control over how we invest. In turn, we may have some control over when we might begin to partake of any wealth we might have accumulated, though we might not. And we should, too, be able to control how we might like to pass on whatever is left of our investment to the next generation and other endeavors.

For part two of this series, we will focus on the decumulation phase of the investment time horizon, during which the math of investment can be complicated by the incorporation of subtraction. Though we started at $0 when we began investing we may need to spend a greater amount of time strategizing how to avoid ending at $0 before we might like to.

And for part three, because how we invest is a decision we should revisit on a regular basis throughout our lifetimes, we will look to examine how a portfolio might need to evolve over time to better match the changing nature of the short-, medium- and long-term outcomes we seek.

Launching into the New Year

As this is our final commentary before we close out 2019, we want again to thank each of our readers for continued trust in our efforts to inform and support their financial plans and goals. Well wishes to all for a safe and joyous end this year and a grand launch into 2020.

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