



A LESSON REVISITED

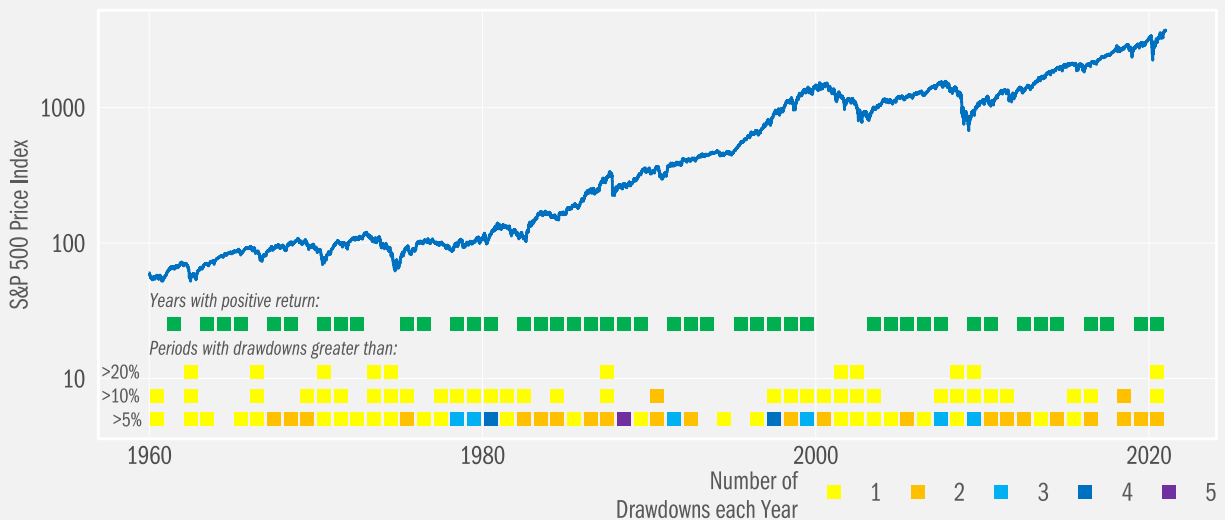
Amidst a year of unprecedented turmoil, the domestic stock market experienced what may in hindsight be considered its requisite volatility. U.S. stocks saw two separate declines of 5 percent or more, and a maximum decline of more than 34 percent from a peak in February to a late-March trough. The market nonetheless turned in a gain for the year, up more than 20 percent. That sort of tumult-turnabout isn't rare, though. Most years, in fact, have seen a decline of at least 5 percent from a prior peak that year, while still posting a gain. And many full-year advances mask interim drops of 10%...even more. Recent activity thus rhymes with longer-term history in demonstrating the benefit of patience when it comes to investing.

Bumps as We Climb

In Figure 1 we offer a long-term view of the S&P 500 Index. Along with the index, we show (via green blocks) that the index has turned in a positive return most years (prior to dividends, which are not included in these data). To those series we add a few more colored blocks that highlight the occasions that the index dropped by various levels over at least one period during the year (we consider peaks and troughs each year separately). The key takeaway from the chart, in our view, is the classic tradeoff of risk and return in investing. While equity markets generally are positive over time, those gains are accompanied by no small amount of volatility.

Figure 1: S&P 500 Price Index and Regularity of Drawdowns

The S&P 500 regularly sees drawdowns of 5%, often sees drawdowns of 10% and occasionally finds an even deeper trough, yet still generally turns in a gain nonetheless



From 12.31.59 to 12.31.20. Price data that do not take into account the receipt or reinvestment of dividends. 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. Drawdown may be measured as the maximum loss from a prior peak value and/or the length of time the portfolio requires to return to breakeven after a prior peak. SOURCE: SRCM using data from Bloomberg

In Seats. Belts Fastened

We begin the new year with an optimistic view of positive progress against the virus and a correspondent boost in economic growth. Of course, we continue to expect bumps—perhaps many, with some potential for discomfort—as we proceed in the direction of more normal activity. As always, we welcome discussions regarding tolerance for market turbulence on the path toward longer-term destinations.

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