

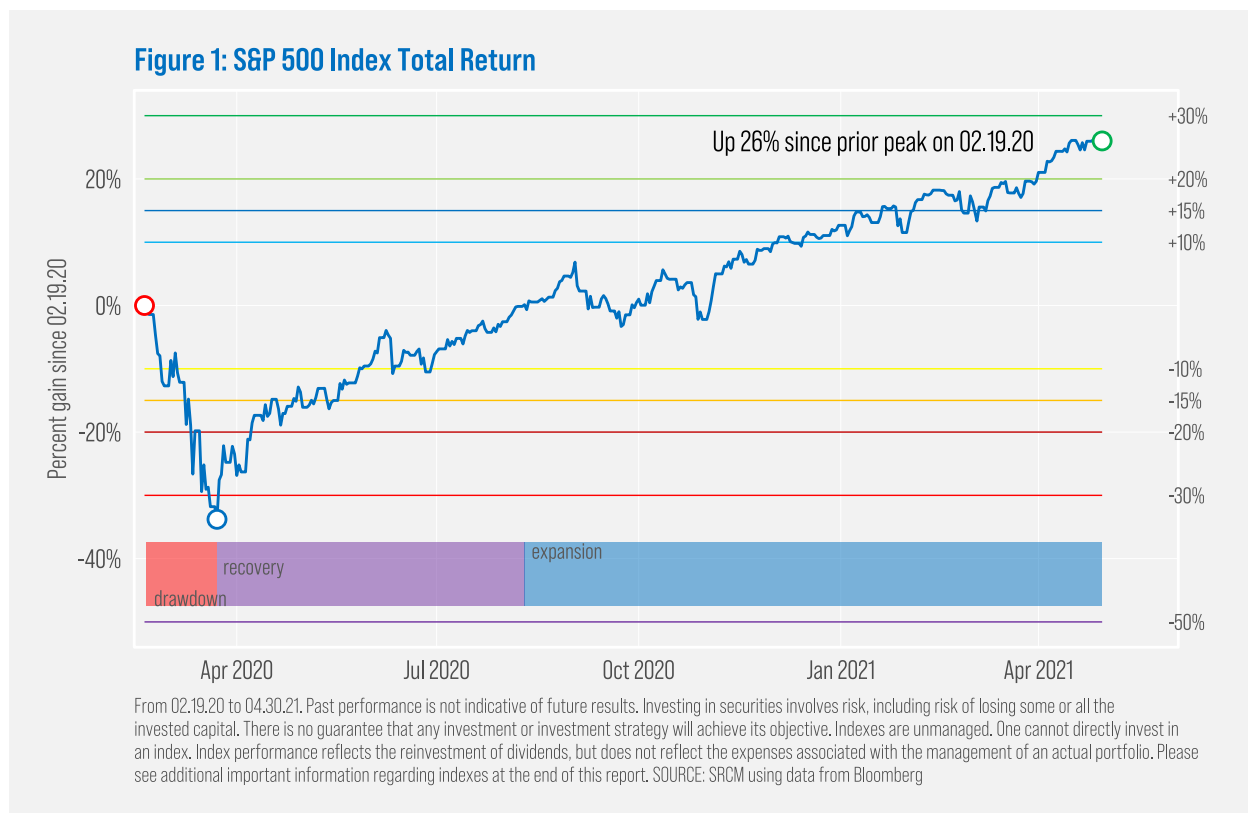


REMINDER FOR NEXT TIME

We long ago learned that adhering to an existing plan, seeking to make adjustments only where truly necessary, remains the smarter course for achieving investment success. Often, that means retaining an investment strategy when it can feel the most uncomfortable to do so. But while that discomfort might seem unbearable for a time, history shows that patience in the face of heightened volatility and decline tends to have been rewarded over time. Though we accept that the challenge can be a heavy one at times, we think one of the smarter ways to manage investment-related stress is to simply look away.

Feeling Stressed?

The past fifteen months we think provide a fine example of why that's true. Certainly was difficult to figure what the future might hold as the COVID-19 pandemic took over in early part of 2020. And the struggles the virus presented from both the health and economic standpoints likely required many to adjust investment intentions developed in kinder times. But, those who had the wherewithal to endure the disruption may well have found reward for that patience in the quick recovery and ongoing expansion in the domestic stock market. Despite having fallen 34% from February 19 through March 23, the S&P 500 Index recovered all of those losses in the following five months, and have since gained another 26%.

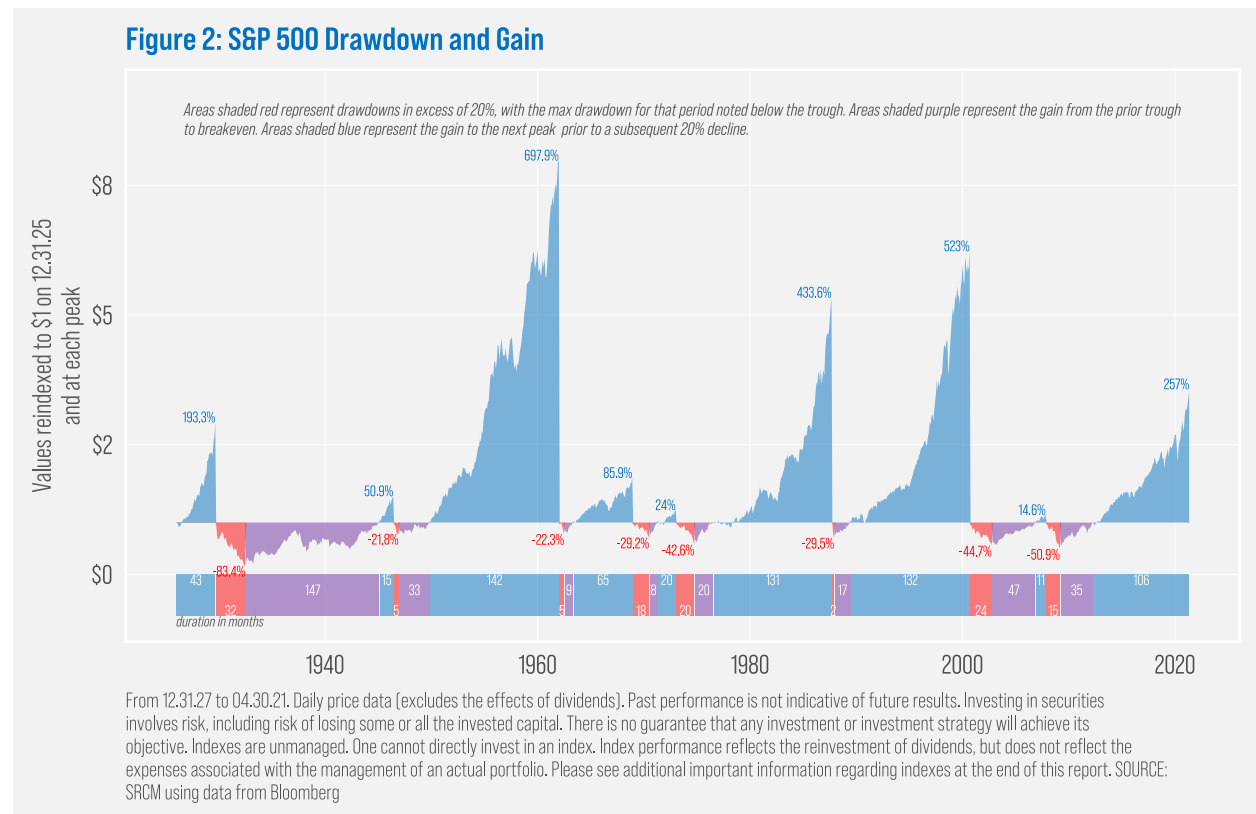


Zoom Out.

There’s another valuable lesson to be learned from this latest downturn: it can help not to pay so much attention to the market on a day-to-day basis. In Figure 2, we chart a longer-term history of market drawdowns of more than 20%, along with subsequent recoveries and expansions. To make each market period a bit easier to see, while emphasizing the relative differences between each, we reset the returns to zero at the beginning of each drawdown. Might not immediately be apparent, but when viewed through a monthly lens, the drawdown last year from a monthly peak in December 2019 to a bottom in March, at just under 20% on a total-return basis, doesn’t even get included in the list. And that’s because much of the worst of the plunge in March is hidden when we “slow down” the data.

Same was true for the very bottom of the market during the financial crisis of 2007-08. Using daily data, the market fell more than 55% from 10.09.07 through the drawdown trough on 03.09.09. But, the month of March that year actually saw equity markets rise slightly. That fact contributes to a drawdown based on monthly data of a modestly more digestible 51%. Still ugly, for sure, but not as bad as might have been perceived by those watching the ticker drop day after day that March.

Another benefit zooming out can provide is that of precedent. Investors have experienced many drawdowns of a fifth or more over the course of U.S. stock market history. But, we can see from chart that the market otherwise has spent most of its time in periods of expansion. We hope a turn to those data may provide some additional comfort during the next period of market duress, especially for those that retain longer-term investment time horizons, and in particular for those that have the ability to continue investing funds at lower prices in the interim.



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