

Commentary: January 2018

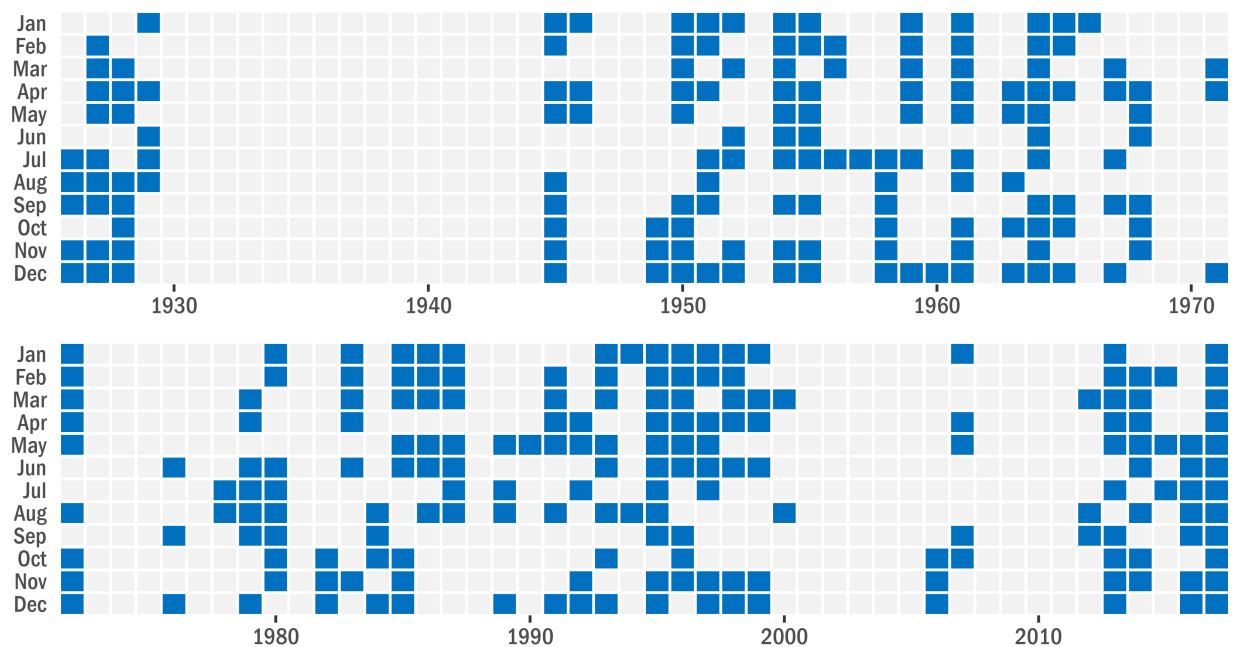
ONWARD. UPWARD?

Market peaks may seem particularly frightening. Like the crest of a roller coaster, they may incite panicked concern that the only course from here is down. Unlike roller coasters, though, such anxiety is unattached from observable truth. While we can see the coaster track, there is no rule in investing that determines future trajectories. Nonetheless, we may find comfort in market history. Though the answers to “by how much?” and “for how long?” only may be determined in hindsight, we may use market history to show probabilities of future outcomes given starting circumstances. For those wary of the fact that December 2017 marked yet another peak for the S&P 500 Index, this month we look to provide detail as to what the future held for past market peaks in hopes that these data will prove comforting support for a chosen level of market exposure.

Been Here Before

Seeking to reassure those experiencing such internal struggles amidst the latest top in the U.S. equity market, we have replicated a review of past market peaks recently presented by colleagues at Dimensional Fund Advisors. Detailed in Figure 1, 331 months out of the 1104 since the end of 1925 have represented new peaks for the index. That amounts to about 30% of the time. Choosing to be out of the market after market peaks therefore would have left one on the sidelines for a substantial portion of market history.

Figure 1: Months When S&P 500 Reached New Month-End Peak



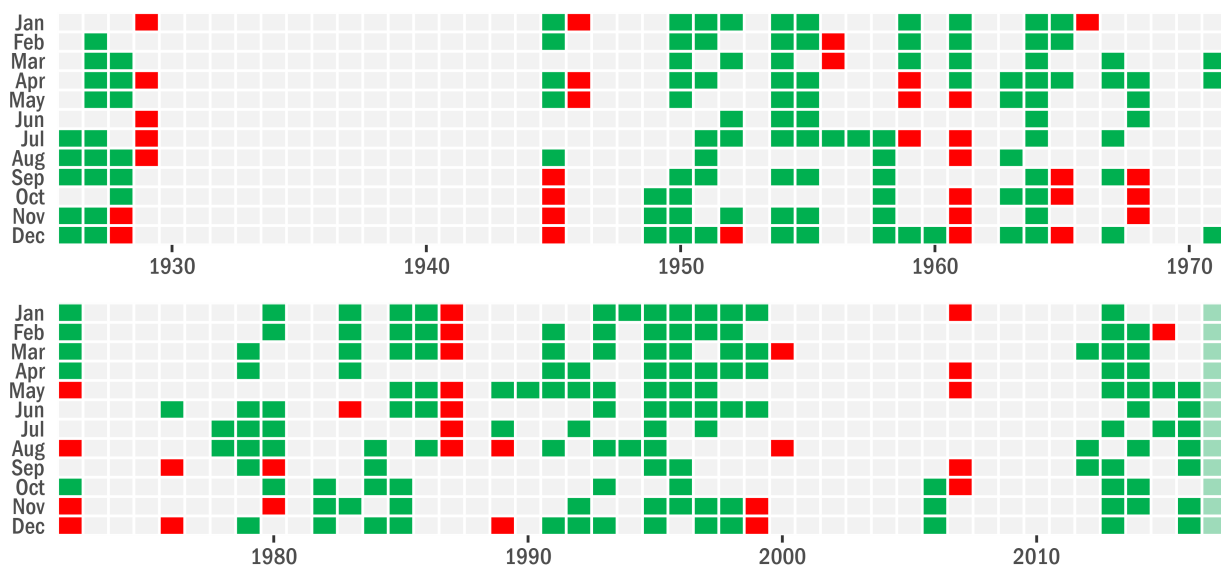
From 12.31.25 to 12.31.17. New-high months total 331 of 1104, or 30%. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. One cannot directly invest in an index. Total return data, which includes the reinvestment of dividends. SOURCE: SRCM using index data from Dimensional Fund Advisors

Now, Where To?

Despite the potential existing gains that market peaks represent—the “look how far we’ve come” aspect of long-term gains—they often focus the mind on the future: what’s the likelihood of more gains to come? In Figure 2, we see that more than four-fifths (81%) of the time following a market peak the S&P 500 was higher a year later. Over 5-year periods, that historical probability of positive returns rises a bit to 84% (Figure 2). And 92% of 10-year periods following a month-end peak in the S&P 500 saw positive returns (Figure 3).

Figure 2: One-Year Return Subsequent to S&P 500 Month-End Peak

Green (red) represents positive (negative) subsequent one-year total return. Light green represents prior new peaks with not-yet-available subsequent one-year returns



From 12.31.25 to 12.31.17. New-high months with positive 1-year total returns total 258 of 319, or 81%. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. One cannot directly invest in an index. Total return data, which includes the reinvestment of dividends. Considers the total return of the 12 months subsequent to the month of the new peak. SOURCE: SRCM using index data from Dimensional Fund Advisors

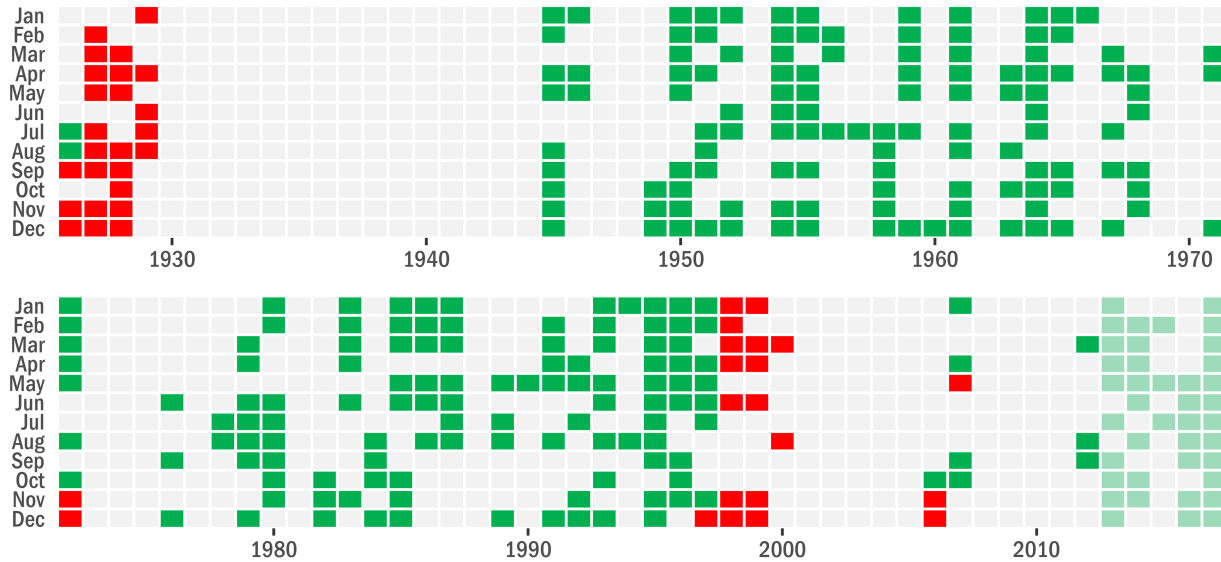
Considering all such 1-, 5- and 10-year periods over the last near century of market data, those probabilities are not far from the norm. In Figure 5, we reprise data that show long-term returns in U.S. equity markets have been increasingly biased toward positive outcomes as the time frame increases.

Mileage May Vary

With 8% of 10-year periods following past market peaks having experienced losses, it is important to stress that positively biased does not mean invariably positive. Advisors can help explain the implications of these and other reviews of past market performance as investors seek to gauge individual tolerance and wherewithal to weather market losses. Our target-risk series of 11 portfolios is designed not only to accommodate a range of aversion to market risk, they together represent a toolbox with which advisors can help clients adapt to shifts in desires for market exposure over time. While none of the portfolios can guarantee positive returns over any time frame, the Target Risk Series is designed to allows clients the ability to direct their participation in equity and fixed income markets in a manner that balances their individual tolerance for market risks with expectations for market returns.

Figure 3: Five-Year Return Subsequent to S&P 500 Month-End Peak

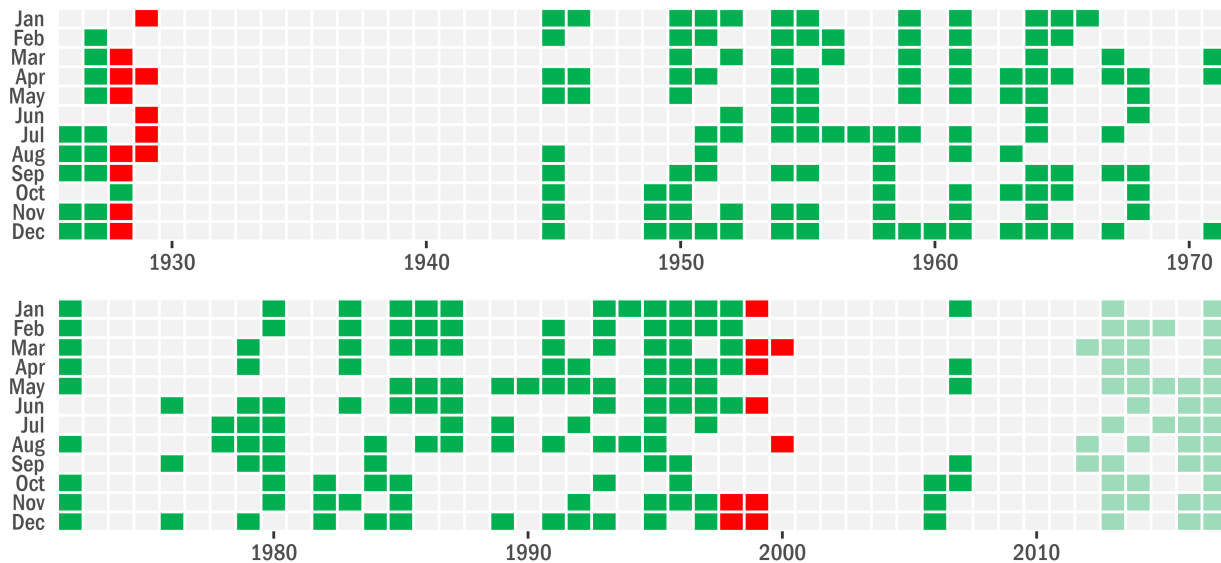
Green (red) represents positive (negative) subsequent five-year total return. Light green represents prior new peaks with not-yet-available subsequent five-year returns



From 12.31.25 to 12.31.17. New-high months with positive 5-year total returns total 245 of 291, or 84%. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. One cannot directly invest in an index. Total return data, which includes the reinvestment of dividends. Considers the total return of the 60 months subsequent to the month of the new peak. SOURCE: SRCM using index data from Dimensional Fund Advisors

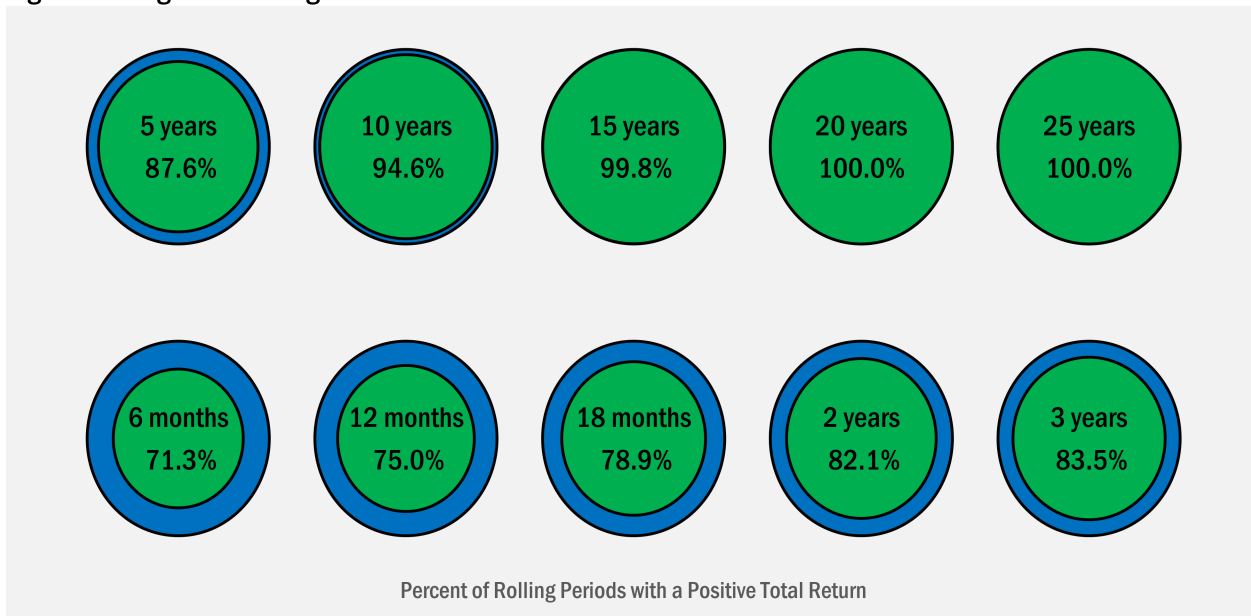
Figure 4: Ten-Year Return Subsequent to S&P 500 Month-End Peak

Green (red) represents positive (negative) subsequent ten-year total return. Light green represents prior new peaks with not-yet-available subsequent ten-year returns



From 12.31.25 to 12.31.17. New-high months with positive 10-year total returns total 266 of 288, or 92%. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. One cannot directly invest in an index. Total return data, which includes the reinvestment of dividends. Considers the total return of the 120 months subsequent to the month of the new peak. SOURCE: SRCM using index data from Dimensional Fund Advisors

Figure 5: Length of Holding Period and Risk of Loss



From 01.31.26 to 12.31.17. Underlying data are monthly total returns for the S&P 500 Index. Rolling calculations based on given trailing periods for each month end. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. 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 Standard & Poor's Index Services Group via Dimensional Fund Advisors

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One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

The S&P 500 Index represents 500 U.S. companies and captures approximately 80% coverage of available market capitalization.

The Russell 3000 Index represents approximately 98% of the investable U.S. equity market.

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