STATERA
ASSET MANAGEMENT

Commentary: August 2017

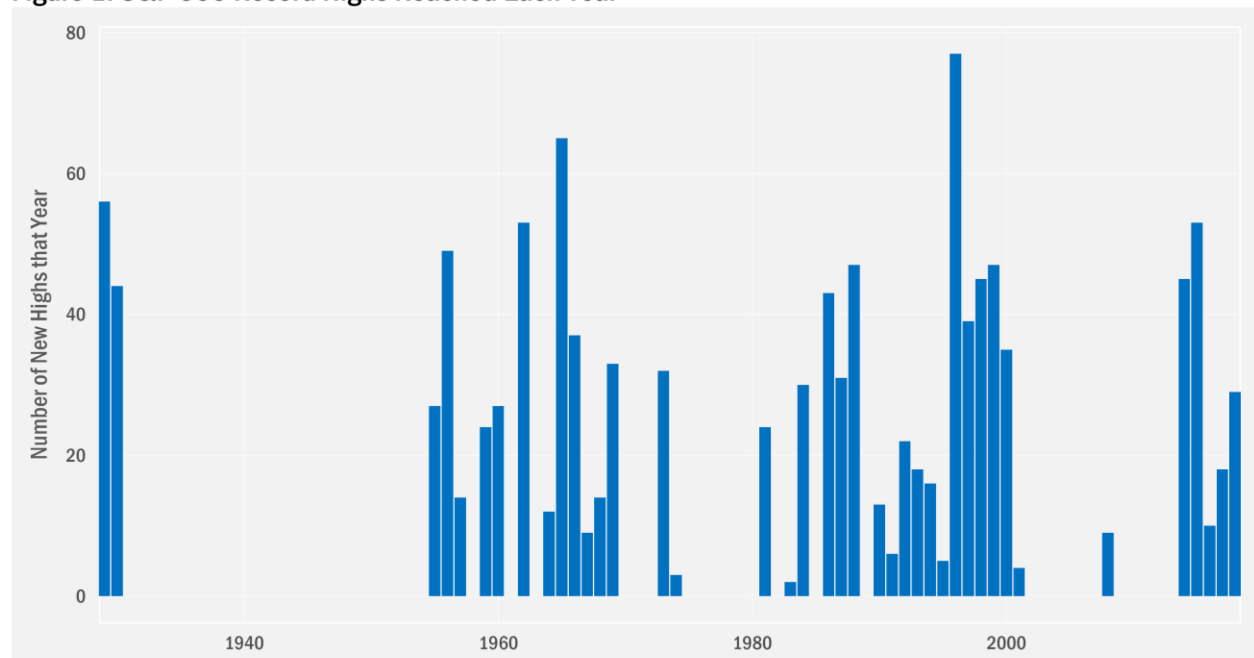
HORIZON BEYOND THE PEAK

All the talk about record market highs makes for a bit of discomfort. It can only be down from here, right? In truth, we can never be sure what the markets will do tomorrow, next week or next year. That in mind, we believe the proper approach seeks to invest according to an individual's investment time horizon and comfort with market risk. With longer time horizons, in particular for those with continued future expected savings, even substantial near- and medium-term downturns may be resolved with time. And the prospects of missing out on additional gains may be seen as just as harmful to potential future wealth.

Bagging Peaks

On July 26, the S&P 500 Index reached a historical top. The measure was just a bit higher than the peak hit the day before, which was a bit higher than that achieved on July 19. And that day's close topped the peak of the day before, itself a few steps above the record set July 14. In fact, there were five fresh maximums for the S&P 500 in the month of July alone, with 29 so far surpassed in 2017. And this year's feats come atop 126 records set in the years 2013 through 2016.

Figure 1: S&P 500 Record Highs Reached Each Year



From 12.30.27 to 07.31.17. 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. Price-based data, excluding the effects of dividends. SOURCE: SRCM using data from Bloomberg

Fearing the Fall

Many fear the latest record-breaking run. We recall many dreading the record streak in 2015, too, following a more than 32% total return for the index in 2013 and another 13.7% gain in 2014. Let's hypothesize that those achievements in 2015 left investors wanting for safety so much that they sold out of the market in order to wait in relative safety for the inevitable downturn. Looking back, that decision may not have been so wise. From the last record set in 2015 on May 21 until the end of last month, the S&P 500 has gone on to set 47 additional records and gain just under 16% in price and achieve a more than a 21% total return when one considers the effects of reinvested dividends.

Diving Back In

Of course, those having worried about potential declines were "rewarded" for their caution with a nearly 12% price drop in the S&P 500 through August 25 of that year. After a rebound to breakeven before year end, another near 13% drop hit the index in early 2016 as concerns grew regarding the potential for global macroeconomic growth and central bank handling of monetary policy. Three cheers for the market timers…if they had the stomach to get back into the market, of course. Echoing the thoughts of many before us, the hardest part of market timing is getting the timing correct.

Getting out is easy…getting back in is the truer challenge. Past experience has left us with the belief that markets very likely will rebound before whatever pressures might have been blamed for the declines have cleared. That is, our experience has been that the market turns before the fears have gone away. Folks timing the environment based on sentiment, then, are just as likely to miss the rebound, in our view. Considering the subsequent gains, would not it have better to have stayed invested?

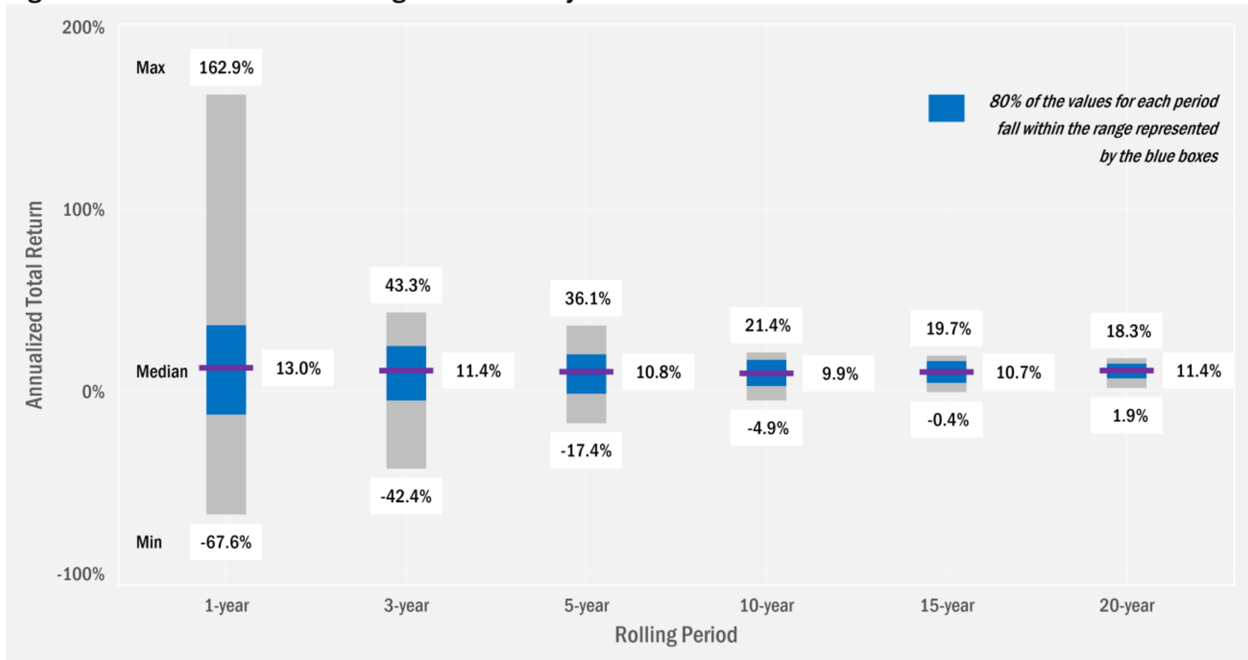
Ups. And Downs. And Ups.

Perhaps. Downturns are as much a part of investing as are new highs. Using history as a guide, the longer our investment time horizon, the more likely we are to have recovered from any losses we might have experienced along the way. As we show in Figure 2, which chronicles historical rolling[1] returns for the S&P 500 over various periods from one year to 20 years, investors generally have been rewarded over time with exposure to the equity markets. Looking at these historical returns, as the length of investment time horizon grows, the range of annualized returns has narrowed, and the maximum annualized loss has dropped.

---

[1] A *rolling period* is a window of time of a specific length with an underlying periodicity. An example would be 10 years using monthly periods (meaning there are 120 months in each rolling 10-year period). Importantly, rolling periods overlap. For a 10-year monthly series, we start with the first 120 months to take a measurement. We then drop the first month (month 1) and include the month after the last month in the prior series (month 121) along with each month in between. This process goes on until we arrive at the final 120 months in the series.

Figure 2: S&P 500 Historical Range of Returns by Time Horizon



Monthly data from 01.31.26 to 06.30.17. 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. SOURCE: SRCM using data from Standard & Poor's Index Services Group via Dimensional Fund Advisors

Time and Tolerance

Time is not the only factor that informs our desired levels of market exposure. So, too, should our individual tolerance for market volatility. To the extent that we simply are uncomfortable with larger market swings, we may want to reduce our exposure to equity markets in favor of a larger allocation to fixed income. While we may thus need to expect a lower longer-term return potential, we should be able to take comfort in a smoother ride along the way.

A goal of our approach is to attempt to align the overall investment allocation with an individual's tolerance for inevitable downturns, all within the context of longer-term financial plans. We invite interested readers to reach out to your Advisors to learn more about how we shape portfolios to fit a range of investment time horizons and levels of comfort with market risk.

Important Information

Investing involves risks. Past performance is not indicative of future results.

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 of the largest U.S. companies by market capitalization.

Opinions expressed herein are subject to change without notice. Statera has exercised reasonable professional care in preparing this information. The information has been obtained from sources we believe to be reliable. However, Statera has not independently verified or attested to the accuracy or authenticity of the information.