STATERA
ASSET MANAGEMENT

Commentary: March 2019

WHAT TO TALK ABOUT TODAY?

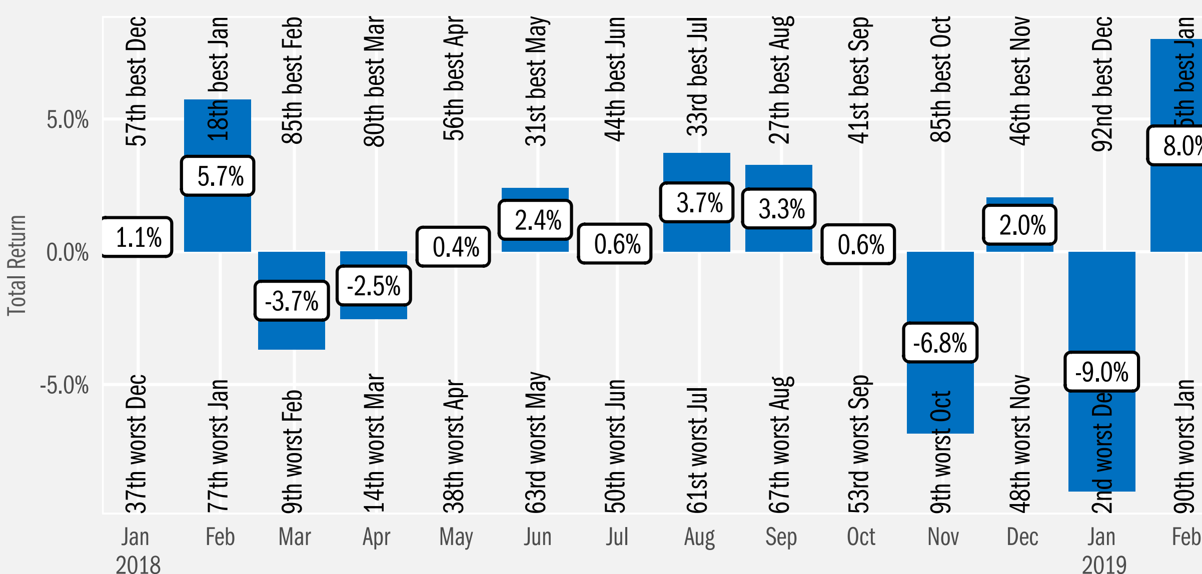
Never ceases to amaze us the ways financial market media will torture market data in order to come up with fresh content. Suppose that's the beauty of data…always another way to look at them. We caution folks not to find too much meaning in all the slicing and dicing of near-term market moves. It's meant to glamorize and mesmerize, not necessarily to provide you with useful insight. That's not to suggest market data can't be of great use. More valuable insight, though, can come from reviews of the rich history of information investible markets have generated, not the last few moments of market time.

Paper Thin Perspective

We try not to be too critical of others on these pages. Ours is not to convince you that the rest of the world is wrong. Rather, we hope to provide sufficient perspective for readers to decide for themselves that our approach is a fine fit for them. Part of our advice includes tuning out the noise that we have found doesn't boost your progress toward long-term financial goals. Speaking of…did you know that January 2019 represented the best January performance of the S&P 500 Index since 1987? How about that the month's tally was the fifth-best of all the Januaries including and since 1926 for the S&P? How about that January 2019 was the 57th-best month of 1,117 months of S&P 500 performance from the beginning of 1926 onward?

Figure 1: Monthly Performance of the S&P 500 Index

We can know each month's rank, but what does that tell us?



Monthly data from 12.31.25 to 01.31.19. 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 Standard & Poor's Index Services Group via Dimensional Fund Advisors

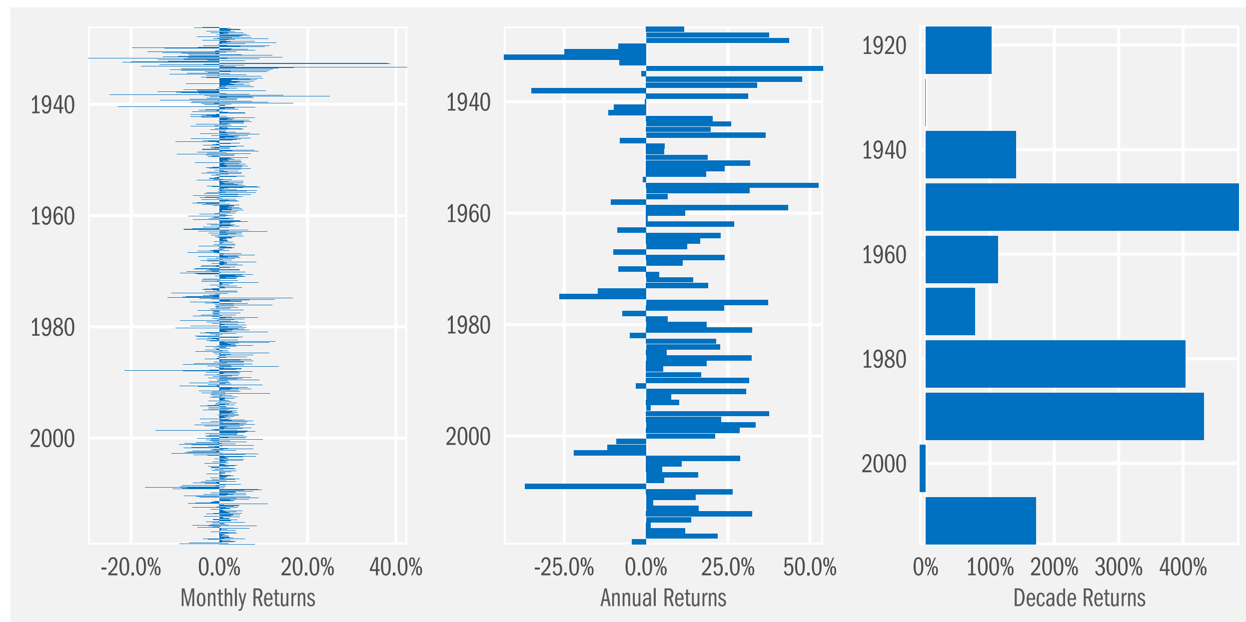
Well, now you know, and hopefully are feeling so much better off for the insight. We jest, of course. Not really much for someone to do with those data. Start with this…do they present good news or bad news? Suppose we assume it's a good thing to see such an amped-up gain. Perhaps it suggests that investors are psyched and that the future is bright, no? Might need only look to the best January ever to change your mind: January 1987 saw the S&P 500 rise 13.4%. For the rest of that year, however, the S&P lost more than 7%. Most of the decline came in the fourth quarter, when the S&P happened to turn in its worst October ever, losing a mind-numbing 21.5%!

Speaking of Octobers, hard to get too excited about January 2019, having experienced the three months prior. October 2018 was the 9th worst start to Q4 in the series. And following a middle-of-the-pack-ish November, December's toll was the second worst on record. In fact, those three months strung together, showing a loss of 13.5%, represented the 53rd-worst three rolling 3-month return on record.

Saying it Again…Context Matters

See what we mean? It can be all too easy to parse short-term market moves to fill space on a page or time on a screen. Easy, too, to devise grand prognostications about the future based on those "analyses". We don't believe either will help you reach your long-term financial goals. Rather than forcing your attention toward today, tomorrow, next week or next month, we'd like to expand your perspective to include the next year, the next five years and the next decade or more.

Figure 2: S&P 500 Index Returns by Period



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For example, looking back at 1987, the return for the full year was 5.2%, 62nd out of the 94 full-year returns since 1925. Not so bad, we suppose, considering the juxtaposition of the superb January and the worst-ever

October. The year that followed turned out pretty well, with a well-above-average 16.8% gain (the arithmetic average of all annual gains since 1925 is 11.9%). And the next year nearly doubled that figure with a total return just under 30.5%.

If the October '87 scare didn't push folks out of the market, perhaps some too-good-to-last thinking regarding those substantial returns over the following two years saw some folks selling out at the end of 1989. The relatively disappointing 3.1% loss in 1990 might even have proved them correct...for a time. Despite that weak start, though, the 90s saw the second-best performance among the decades since the 1920s, gaining 18.2% per year for a 431% total return. Those figures were beaten only by the 50s, which saw the S&P 500 grow 486%, or 19.3% per year.

Zooming Out

The picture that emerges when one pursues such exercises is one we've described often on these pages. While disparity of returns and the potential for losses exist even over longer time horizons, with time, the market tends to iron out near- and medium-term fluctuations. For those investors with substantial tolerance for market volatility, perhaps 100% exposure to stocks may be the preferred solution. For others, as aversion for market risk increases, we may prescribe a larger allocation to bonds. We think providing that context is a good place to start when discussing expectations for market return and acceptance of market risk.

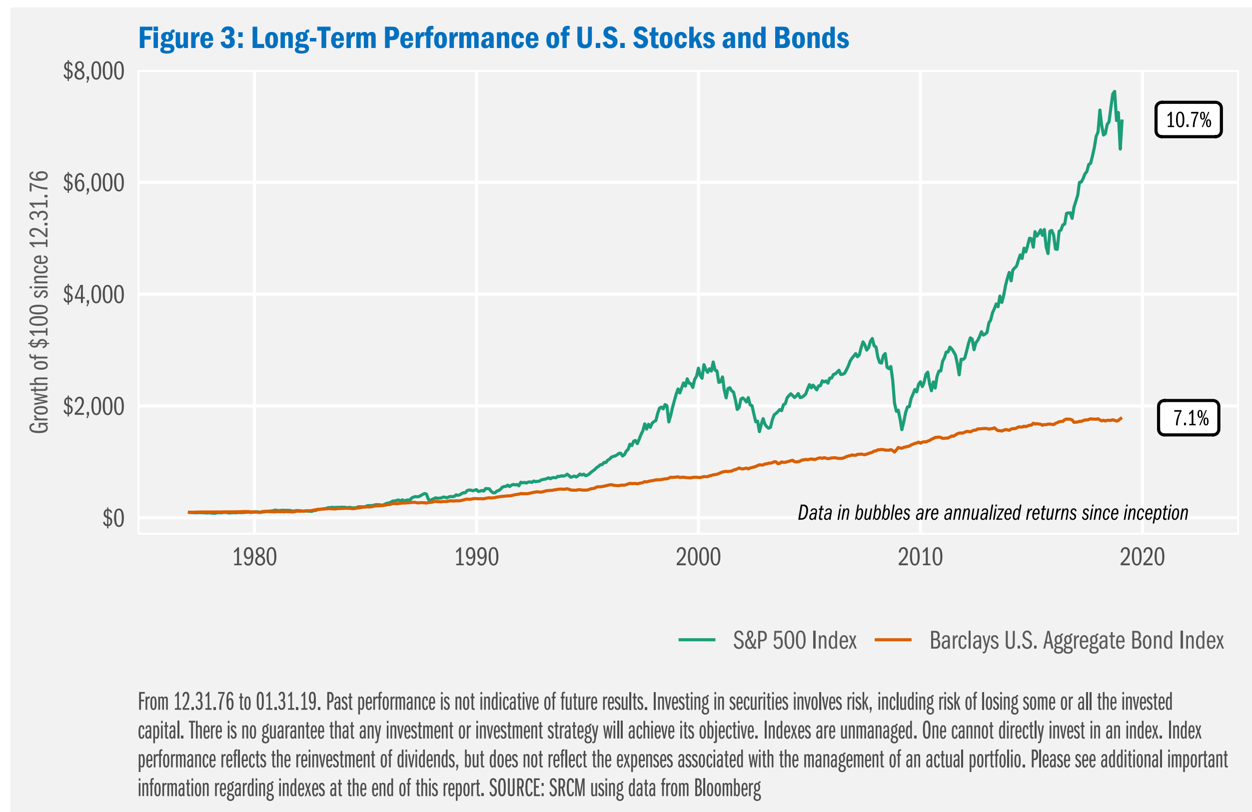

Figure 3: Long-Term Performance of U.S. Stocks and Bonds

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Publication: 03.1.19

2019-SRCM-27