The Uncommon Average

The US stock market has delivered an average annual return of around 10% since 1926. **But short-term results may vary, and in any given period, stock returns can be positive, negative, or flat.** When investors set expectations, it's helpful to see the range of outcomes experienced historically. That "average" return of 10% certainly masks a wide variety of short-term (annual) returns—and attaining long-term returns requires being in our seats to benefit from growth! For example, how often have the stock market's annual returns actually aligned with its long-term average?

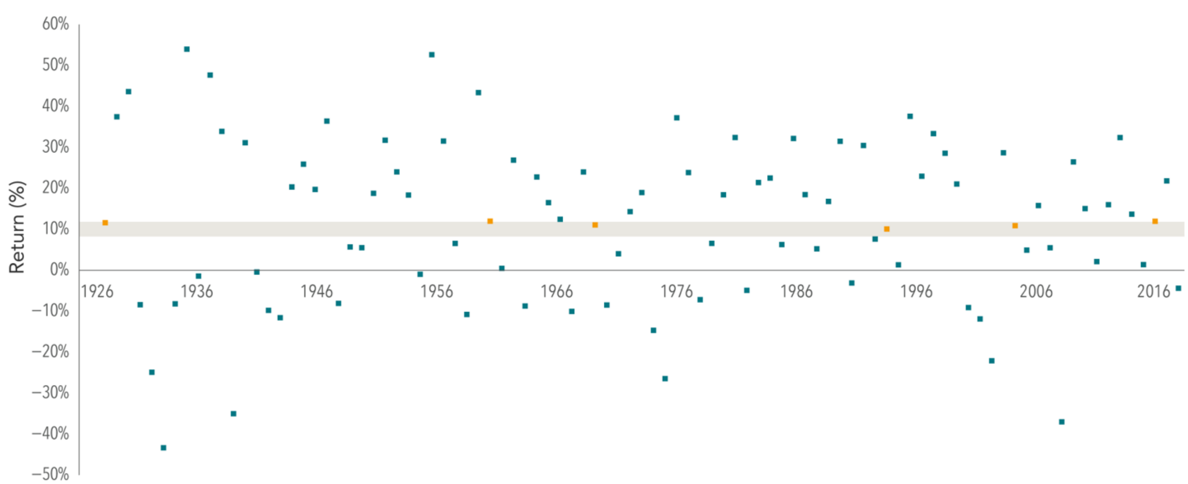
Exhibit 1 shows calendar year returns for the S&P 500 Index since 1926. The shaded band marks the historical average of 10%, plus or minus 2 percentage points. The S&P 500 Index had a return within this range in only six of the past 93 calendar years. In most years, the index's return was outside of the range—often above or below by a wide margin—with no obvious pattern. For investors, the data highlight the importance of looking beyond average returns and being aware of the range of potential outcomes.

Exhibit 2 on the following page documents the historical frequency of positive returns over rolling periods of one, five, and 10 years in the US market. The data show that, while positive performance is never assured, investors' odds improve over longer time horizons. In other words, to enjoy the ride, you've got to stay in your seat and take in the view!

While some investors might find it easy to stay the course in years with above average returns, periods of disappointing results may test an investor's faith in equity markets. Being aware of the range of potential outcomes can help maintain discipline, which in the long term can increase the odds of a successful investment experience.

What can help investors endure the ups and downs? While there is no silver bullet, understanding how markets work and trusting market prices are good starting points. An asset allocation that aligns with investment goals is also valuable. By thoughtfully considering these and other issues, investors may be better prepared to stay focused on their long-term goals during different market environments.

Exhibit 1. **US Large Company Index Annual Returns**
1926–2018



In US dollars. S&P data © S&P Dow Jones Indices LLC, a division of S&P Global. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Past performance is no guarantee of future results. Actual returns may be lower.

Exhibit 2. **Frequency of Positive Returns in the US Large Company Index**
Overlapping Periods: 1926–2018

In US dollars. From January 1926–December 2018, there are 997 overlapping 10-year periods, 1,057 overlapping 5-year periods, and 1,105 overlapping 1-year periods. The first period starts in January 1926, the second period starts in February 1926, the third in March 1926, and so on. S&P data © S&P Dow Jones Indices LLC, a division of S&P Global. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Past performance is no guarantee of future results. Actual returns may be lower.

Rockwood Welcomes Travis Roe-Raymond

We at Rockwood are excited about the arrival of our newest colleague, Travis Roe-Raymond, who joins us in the role of Private Client Advisor. He is a CFA charterholder, a CFP® certificant, and a lifelong learner and teacher.

A Skidmore College graduate, Travis embarked on his pursuit of educating others by teaching English at Sun Yat-sen University in Zhuhai, China. After his return stateside, Travis began his financial services career at BlackRock, where he managed portfolios for individuals and small institutions. Most recently, Travis has worked in financial planning at TIAA-CREF helping professors, doctors, and administrators at universities and hospitals in the New Jersey area.

Travis, who lives in Lawrence Township, NJ, with his wife, Carolina, spends his nonworking hours hiking, watching movies, and finding good eats. He's a true team player whose professional mission is to empower clients through financial education and through helping them navigate ever-evolving complexities of investing and financial planning. We're thrilled to have Travis as part of the Rockwood team—he brings a tremendous amount of compassion and warmth to his work as an advisor. In addition to being a great advisor, Travis loves planet Earth—just ask him about his reusable snack bags and paper straws.

One Hundred Forty-Five Days

On Thursday, September 20, 2018, the Standard and Poor's 500 Index—a proxy for the US equity market—made a new all-time closing high, at 2,930.75. That was actually the third new high in the previous month; before that, the Index had gone 145 trading days without making one.

By a wild coincidence, another 145 trading days later—on Tuesday, April 23, 2019—the Index made its next new all-time closing high, at 2,933.68. But that isn't really the story, is it? To answer this not-in-the-least rhetorical question: No, it isn't. The story is what happened in the seven months between those two new highs. And what happened (setting aside the whole specious issue of "why" for a moment) is that in the roughly three months between September 20 and Christmas Eve, the Index went down 19.8% on a closing basis. And in the succeeding four months (less one day), it made up all those "losses" and a tad more.

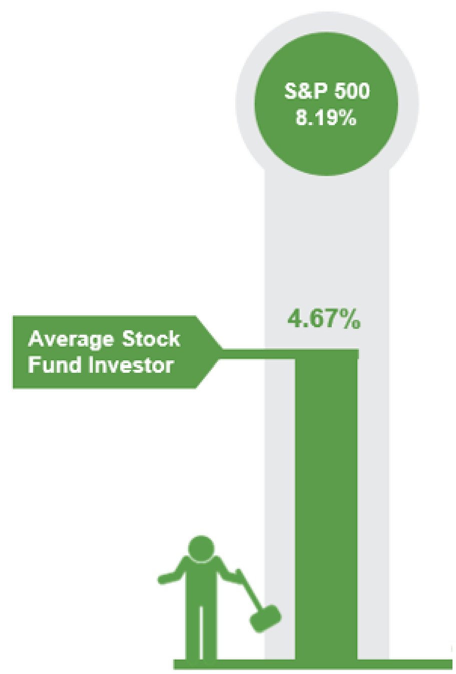
Except that's not the real story either. Not where it counts. You see, **what happens in the equity market has very little to do with what actually happens to the equity investor. That's because the dominant determinant of long-term, real-life outcomes is not the performance of markets but the behavior of investors.** The real story of that seven-month round trip, therefore, will be found in (a) how you were feeling as the Christmas Eve Massacre unfolded, (b) what you did in response to your feelings, and/or (c) what you did not do.

Why the equity market went down as suddenly and sharply as it did in the three months through Christmas Eve is, in terms of your own lifetime investing experience, irrelevant. Why it reversed to new highs almost as suddenly and sharply is, if possible, even more irrelevant. The critical variable was, and always will be, how you responded.

It would appear anecdotally—judging by the wave of outflows from equity mutual funds and ETFs as the decline entered its terminal panic phase—that a great many investors responded by fleeing equities. And the closer the market got to its Christmas Eve selling climax, the more people—or at least the more dollars—fled. It was ever thus, human nature being what it is.

I must proceed now on the assumption that you didn't—flee, that is. I arrive at this hopeful conclusion by a process of inductive reasoning, as follows:

(a) I take as a given that you work with a financial advisor who is familiar with, and in general agreement with, my essential equity investing principles. Chief among these is, "When the spaghetti hits the fan, don't just do something: Stand there. This too shall pass."



(b) I'll assume that you didn't just recently engage the said advisor—that he or she was already your advisor during the September-to-April round trip.

(c) If (b) is correct, I'm quite sure your advisor steadfastly and even vociferously counseled you to stay the course—and indeed, if possible, to step up your equity purchase plan. And therefore:

(d) You stayed the course, perhaps even buying some relatively panic-priced shares from capitulators. (If you're reinvesting dividends, you actually did a bit of this opportunistic buying, even if you didn't mean to. And bravo, say I.)

If this conclusion is consistent with your actual experience, then you are to be applauded. One hopes that this has established (or reinforced) a pattern that will carry through the balance of your investing lifetime.

On the odd (and terrible) chance that assumptions (a), (b), and (c) are correct but that the conclusion (d) isn't—that despite counsel, you went to cash—let this be the most important lesson of your investing lifetime. Start over. Sit down with your advisor, and begin the process and conversation again.

For the lifetime and even multigenerational equity investor, the folly of capitulation to panic may be a lesson we all have to learn from experience. Once. The trick is—with the counsel of an empathetic but tough-loving advisor—never having to learn it again.

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