Enterprise Digital Advice

Keeping a Long Term Perspective

February 2022

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Agenda

- Impact of Market Downturns and Long-Term Returns
- Impact of Inflation
- Importance of a Long-Term Perspective

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Impact of Market Downturns

It's natural for investors to worry about market downturns. But downturns are a regular occurrence. Consider:

- The S&P 500 has experienced drawdowns of 10% or more in 17 calendar years since the 1970s. That's 33% of all calendar years!

Most of these drawdowns are short-term in nature. But even when there are longer and more severe drawdowns, consider that:

- The longest the S&P 500 has taken to set a new all time high from the previous all time high is a little more than 6 years, since the 1970s. This timeframe includes the the 1973-74 crash, the dot-com bubble, the Global Financial Crisis, and the 2020 pandemic volatility
- The S&P 500 realized a positive return in 41 out of the last 51 calendar years (or 80% of the time) since the 1970s

In general, over the past 45 years, the odds of an investor earning a positive return (based on the S&P 500) were 90% for a 5-year horizon, 94% for a 10-year horizon, and 100% for horizons 15 years or longer.

Even though market volatility can be frightening, volatility is a common feature of financial markets, and markets have tended to provide positive performance over a long enough time horizon.

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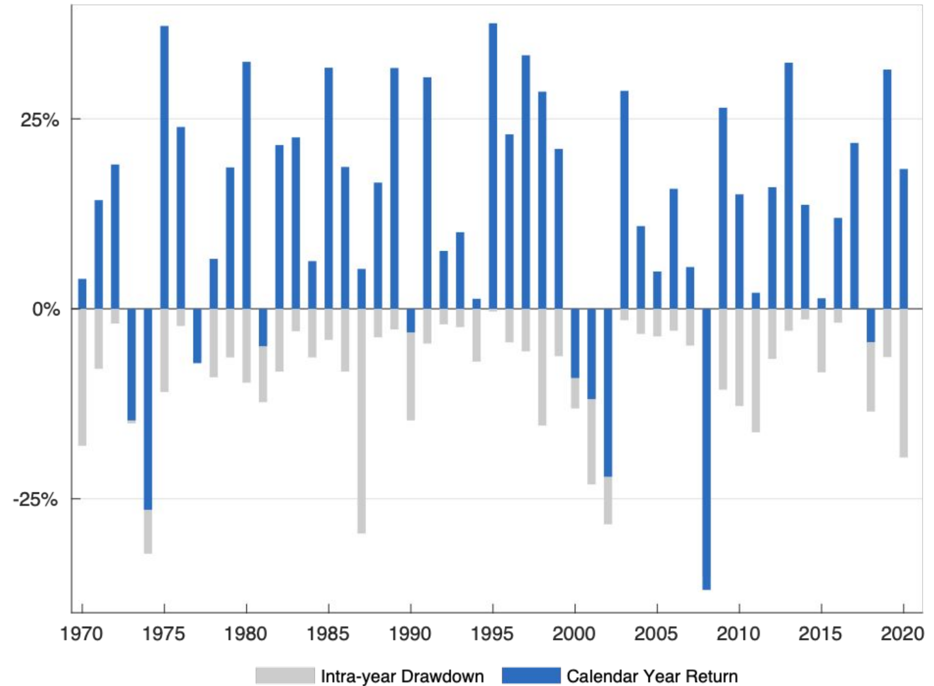
S&P 500 Intra-Year Drawdowns vs Calendar Year Returns

Despite intra-year drawdowns, the S&P 500 Index has generated positive calendar year returns the majority of the time



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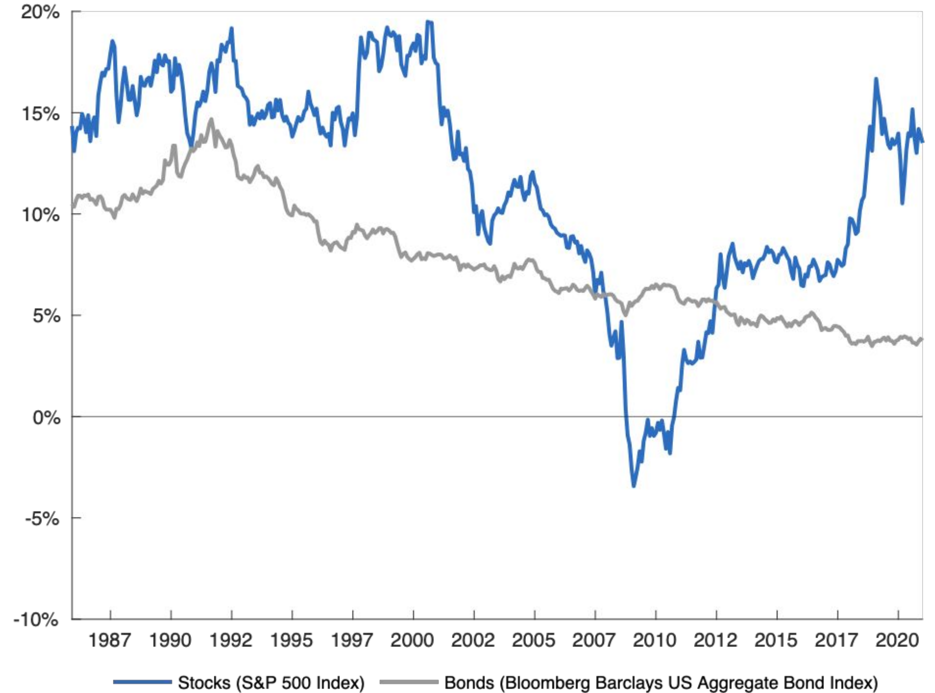
Stocks vs Bonds – Rolling 10-year Returns

Since the 1970s, stocks have outperformed bonds over 10-year horizons in all but the 2008 Global Financial Crisis



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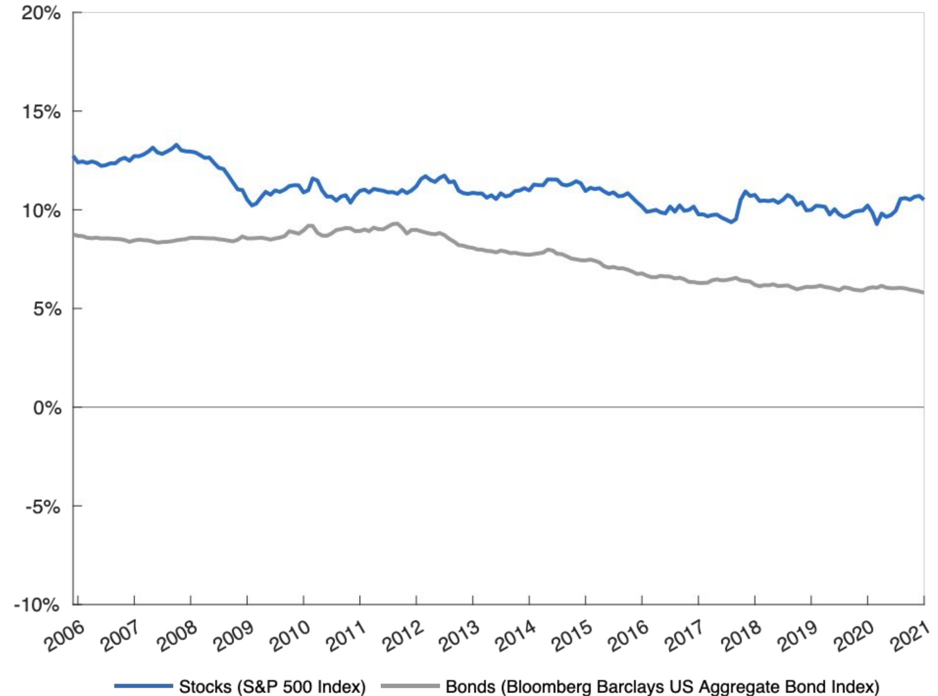
Stocks vs Bonds – Rolling 30-year Returns

Over long time horizons, stocks have consistently outperformed bonds by a significant margin

Long-term historical returns of both stocks and bonds have fallen over time, however, indicating the need for a forward-looking rather than purely historical view



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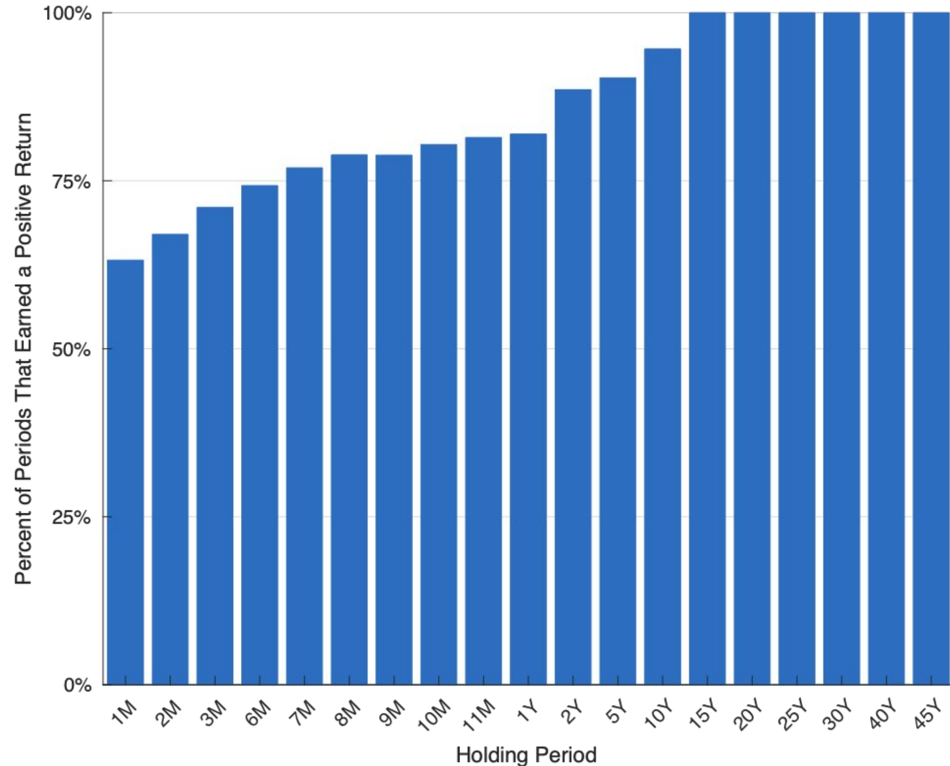
Historical Likelihood of Positive Stock Returns

Historically, the S&P 500 has *always* generated positive returns over long enough time horizons (15+ years)

The S&P 500 has generated a positive return in a *comfortable majority* of time periods of any length



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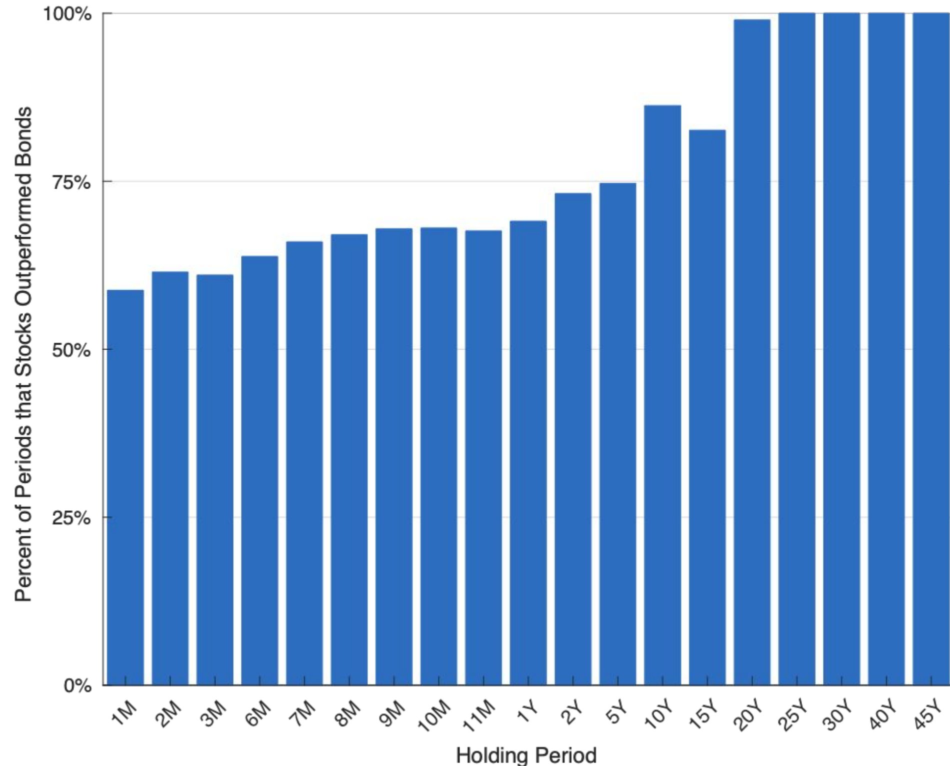
Historical Likelihood of Stocks Outperforming Bonds

Historically, the S&P 500 has *always* outperformed bonds over long enough time horizons (20-25+ years)

The S&P 500 has outperformed bonds in a *comfortable majority* of time periods of any length



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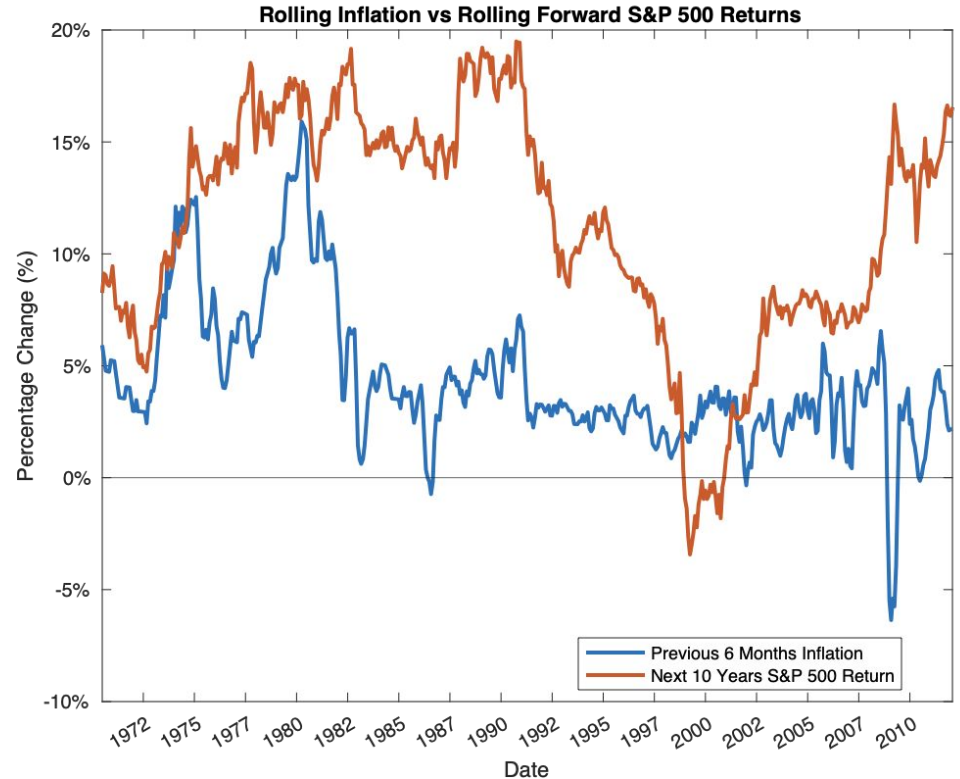
Current Inflation and Future Stock Returns

Chart shows 6 month trailing inflation (blue) vs 10 year forward-looking S&P 500 returns (orange)

High current inflation has not been associated with especially high or low subsequent *long-term* stock returns



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U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIAUCSL, January 25, 2022.

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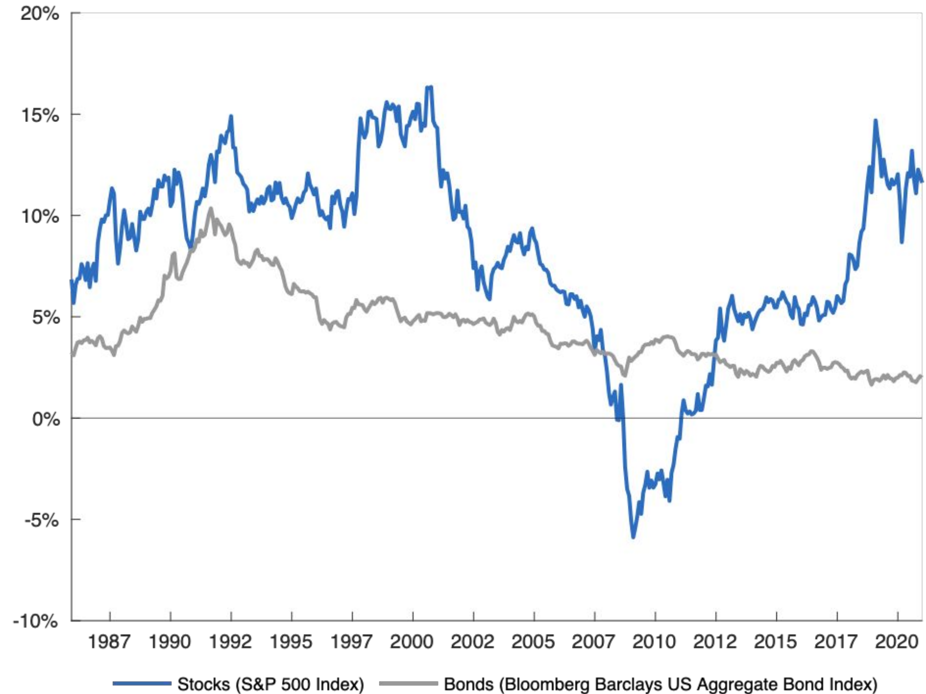
Stocks vs Bonds – Rolling 10-year After-Inflation Returns

Since the 1970s, bonds have generated positive real returns (i.e. after inflation) in all 10-year periods, and stocks have done so in all but the 2008 Global Financial Crisis



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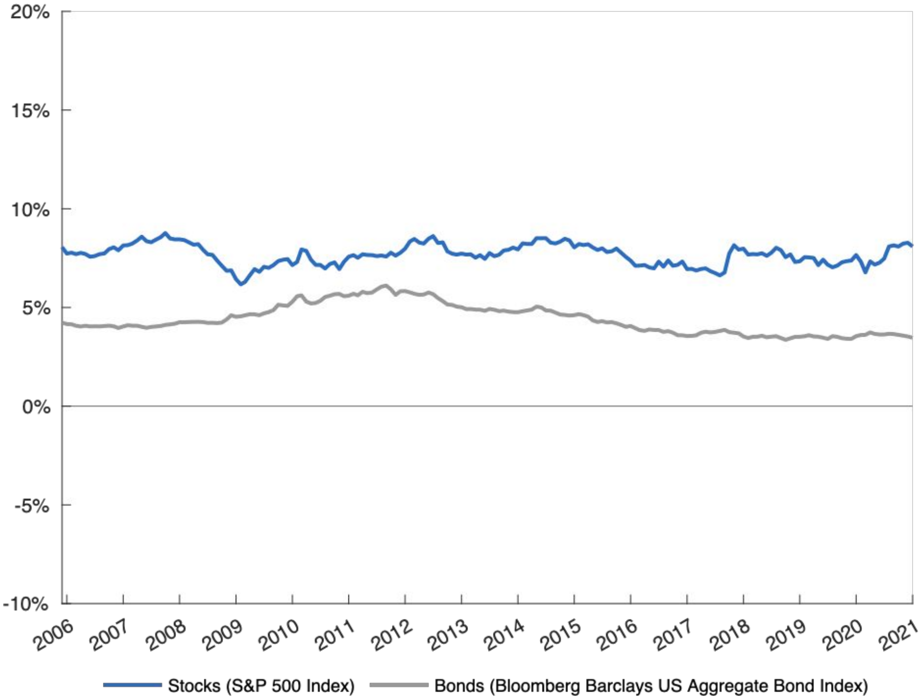
Stocks vs Bonds – Rolling 30-year After-Inflation Returns

Over long enough time horizons, both stocks and bonds have generated returns above inflation regardless of inflation regime



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Impact of Missing the Best (and Worst) Days in the Market

Decade	Cumulative price return	Excluding decade's worst 10 days	Excluding decade's best 10 days	Excluding decade's best and worst 10 days
1930s	-42%	39%	-79%	-50%
1940s	35%	136%	-14%	51%
1950s	257%	425%	167%	293%
1960s	54%	107%	14%	54%
1970s	17%	59%	-20%	8%
1980s	227%	572%	108%	328%
1990s	316%	526%	186%	330%
2000s	-24%	57%	-62%	-21%
2010s	190%	351%	95%	203%
2020s to date	18%	125%	-33%	27%
Growth of $1	**$178**	**$37,989**	**$1.30**	**$276**

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Waiting for the Rebound vs. Staying the Course

Scenarios	Accumulated Wealth	Annualized Money-Weighted Return
Continually Invest Through Downturn	$2,026,038	9.86%
Wait Until Market Recovers	$566,219	2.84%

Assumptions

Monthly contributions of $1000, with $0 initial investment. Investors who time the market wait after any drawdown larger than 10% until the market fully recovers from the drawdown. Investors earn the total return of the S&P 500 index. Time period for investment is December 1990 - December 2020.

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Conclusions

Investing in the market is often a stressful experience. Historically, investors have worried about geopolitical, economic, and other important events that have impacted portfolio returns. In the long run, however, these factors have proved transitory.

While market downturns can create anxiety, the stock market has produced positive returns in excess of inflation and bonds over long time periods

Periods of high current inflation have not had a clear impact on subsequent long term historical financial market returns

Attempting to time the market has historically been shown to lead to bad outcomes, as it is difficult to predict market recoveries

Long term investors have generally been well-served by continually saving and investing, and staying the course

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