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TO WIN THE GAME, YOU HAVE TO STAY IN THE GAME

LESSONS FROM ONE OF THE MOST IMPROBABLE BULL RUNS IN HISTORY

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Proving that pundits' predictions are generally worthless, the stock market SOARED in 2019.¹ The sad part of the story is that more people than ever sat on the sidelines in 2019, missing out on the biggest gains in years. According to Lipper, from January through the middle of the year, a record \$140 billion was pulled out of stock funds. Also by the middle of the year, \$149 billion had been added to cash funds earning about 1%. This was not just the story of the year, but of the decade. Soon after the 2008/2009 financial crisis, supposed "smart money" thought the market would suffer a major setback and waited on the sidelines for it to stabilize. Others headed to cash years ago, believing that the bull market had gone on too long and was due for a major pullback. All were punished severely by the market-timing gods.²

The key, as we have advocated since our inception, is to get invested in solid investments and stay invested. Adjustments must be made along the way for a variety of reasons, but all within the key parameter of pushing out the noise and staying invested. This means staying invested when pundits say the tariff war will crush the market. Or when economists tell us the inverted yield curve means we are heading into a recession later in the year. Or when talking heads tell us the impeachment hearings will derail the bull market. And on and on. The market, it seems, doesn't listen to much of what these folks have to say.

Now, not everyone sat on the sidelines. Those who stayed in the game³ may be high-fiving their friends or doing a little morning dance in their pajamas. It was quite a year, and not just for the market. While we are reading more stories than ever about how the rich got richer (yes, they did), the untold story is that more people came out of poverty in the last decade than all of history combined,

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¹ Warren Buffett famously said, "Stock forecasters exist to make fortunetellers look good."

² If there was an actual image of this god, it would be of someone with a hand to their forehead, rolling her eyes in disgust.

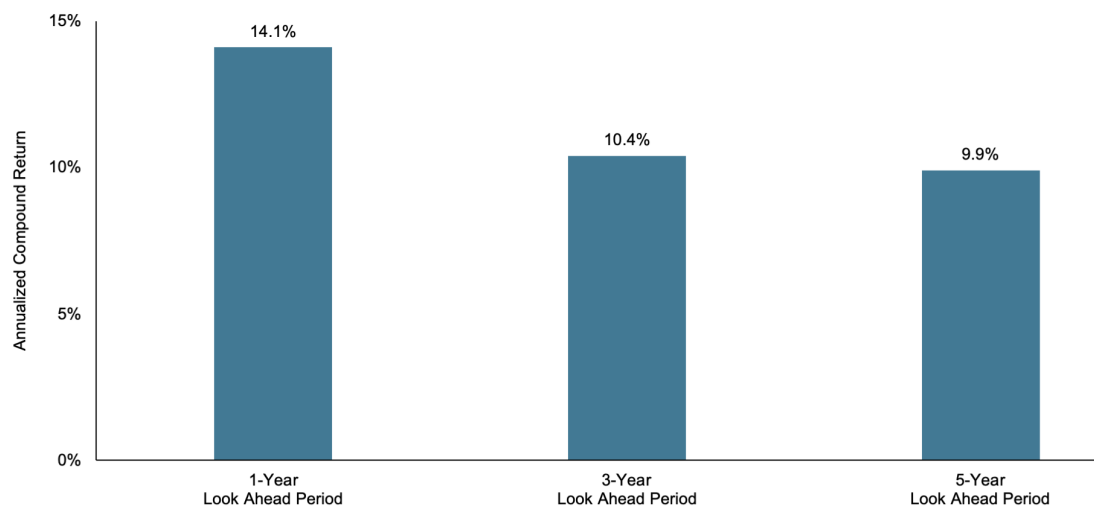
³ Like you! You Rock!

and the percentage of those living in extreme poverty was cut in half, from 15.7% to 7.7% now. For example, India lifted 271 million people out of poverty in the decade and China has substantially eliminated poverty from within its borders. Things, it seems, are getting better.

Those who sat on the sidelines are licking their wounds and others are celebrating.⁴ Most are quite pleased with 2019 but are concerned about what this means for the future. Surely, they say, the market must have a bad year to make up for the incredible run it had in 2019. Well, believe it or not, a good year is usually followed by more good news. When the market has a year that hits an all-time high, on average it earns an additional 14.1% the following year, averages 10.4% growth each of the following three years, and averages 9.9% annually over the next five years. (See chart below.) Counterintuitive, I know.

Average Annualized Returns after New Market Highs

S&P 500, 1/1926–12/2018



In US dollars. Past performance is no guarantee of future results. New market highs are defined as months ending with the market above all previous levels for the sample period. Annualized compound returns are computed for the relevant time periods subsequent to new market highs and averaged across all new market high observations. There were 1,115 observation months in the sample. January 1990–Present: S&P 500 Total Returns Index. S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. January 1926–December 1989; S&P 500 Total Return Index, Stocks, Bonds, Bills and Inflation Yearbook™, Ibbotson Associates, Chicago. For illustrative purposes only. Index is not available for direct investment; therefore, its performance does not reflect the expenses associated with the management of an actual portfolio. There is always a risk that an investor may lose money.

Source: Dimensional Fund Advisors

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⁴ And will stay on the sidelines because that is what they do. When the market is up, they say, it must come down. And when it is down, they're proven right and it will go down further. It's completely wealth-destructive thinking, and unfortunately prevalent.

Now, to be clear, while this is what happened historically, it basically means nothing. No one can predict what the market will do over 1, 3, 5 or even 10 years. There are simply too many influential variables, from terrorism to politics and interest rates to taxes and about another 100 factors in between. The point isn't to assure you the market will go up from here – we can't make that prediction. Rather, it's to point out that just because the market is at an all-time high doesn't mean it is due for a pullback. Historically, investing immediately after a market has hit all-time highs has proven to work out just fine. While we don't know what next year will bring, history suggests the future is likely to be bright for those who have a plan, stay disciplined and remain invested.

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