HEMINGTON
WEALTH MANAGEMENT

INVESTMENT NEWSLETTER

JANUARY 2020 | BY IWONA CHOLEWA, CFA

IS NOW A GOOD TIME TO INVEST?

The S&P 500 Index, which tracks 500 of the largest companies in the US stock market, ended 2019 at 3,230, within 10 points of an all-time closing record it set just two days prior. The MSCI All Country ex US Index, which tracks developed companies outside US, and companies in emerging economies, also ended 2019 near all-time high levels. With stock indices this high, should we expect negative returns for stocks in the near future?

It can be an appealing narrative – that there is a good time to be invested, and that you can get out at the right time and get back in. And when stock indices are this high, isn't it the right time to get out? After all, we want to sell high and buy low, don't we?

Not so fast! The reality is that nobody can predict the future, and the best we can do is to play the odds in our favor. What are the odds of having a successful investment experience if you sell everything now and hold cash? What if you stay the course and stay invested? Let's consider these alternatives.

If you sell the stocks in your portfolio and put all that money in a savings account (or a similar "safe" vehicle), you'll protect your portfolio from losses, but you'll be guaranteed to earn close to nothing on your money. You'll also be guaranteed that inflation will erode the purchasing power of your money. Inflation causes higher prices of goods and services over time and, in fact, is one of the fundamental reasons to invest. Not investing is actually *risky*! If your money doesn't grow, you may not be able to afford goods and services in the future.

What if you stay invested? What are the odds that your investments will end higher one, three, or five years from our current record highs? And how would the odds change if you wait for the market to cool off a little? See *Exhibit 1 below*. It turns out that historically, all-time highs are usually followed by more all-time highs: one year later, 80% of the time the market was higher! Oddly enough, that's not much different than investing at any other time. Looking ahead on a three-, and five-year basis, **it makes no difference for future returns whether you invest at all-time high or in any other market:** the odds are high that you'll make money investing in stocks.

EXHIBIT 1. S&P 500 INDEX TOTAL RETURN HIGHS

Percent of cases where index is higher after monthly closing high vs. any monthly closing level.

January 1926–December 2017

Look-Ahead Period (N)	Percent of Cases Where Index is Higher (after new high)	Average Gain (after new high)	Percent of Cases Where Index is Higher (after any previous level)	Average Gain (after any previous level)
1 Year	80.9%	19.6%	75.0%	21.1%
3 Year	84.2%	51.1%	83.5%	51.8%
5 Year	84.2%	89.2%	87.5%	85.0%

For illustrative purposes only. Average gain is a simple average of all positive returns for the 1-, 3-, or 5-year periods analyzed. S&P data © 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

History is one thing, but does it make sense for the markets to continue to set new highs in the future? Every day, millions of buyers and sellers are negotiating stock prices. For every seller in the market, there is a buyer; no transaction takes place without the two, contrary to a popular news headline that "there were more sellers than buyers". When financial uncertainty is high, stock prices tend to go down; when uncertainty is low, prices go up. Either way, buyers and sellers will transact at a price level where the buyers expect to earn a positive return. Through this mechanism, stock market prices are constantly set to a level at which the required rate of return is positive, whether the market is at a new high, a new low, or something in between.

Look at it another way: there is nothing unusual about market highs. When I was born in 1975, the S&P was at around 90. How did the index get from 90 to 3,230? It hit 300 points in 1987 (a 3-fold increase in 12 years), 900 points in 1997 (another 3-fold increase, this time in 10 years), then 1500 points in 2000, then 2,000 points in 2014 (a 400% increase in 19 years). Every time the index hit each of these milestones, many people asked the same question: it's an all-time high, is now a good time to be in the market? And indeed, what a great time it was to be in the market! If I had invested $100,000 in the S&P 500 Index on January 1, 2000, I would have over $324,000 today. I would get this healthy rate of return despite the fact that the index went through tough times since then: it crashed in 2001 and again in 2008. The key to successful investment experience over the past 20 years was *staying invested*!

At these historical rates of return, by 2050, the S&P 500 could be at 19,000! And that sounds crazy to us today, but it's just as crazy as telling my parents when I was born that the S&P 500 would exceed 3,200 when they are ready to retire.

As everyone knows, there are no guarantees of continued positive performance, even though over time expected returns are always positive. As we continue to emphasize, nobody knows what is going to happen in the future, but we do know that an investor's ability to achieve his or her goals relies on maintaining investment discipline in their portfolio over the long run. We rarely recommend a 100% equity allocation in part because of the turbulent ride. Rather, the alternative to "all cash" or "all stocks" is to have both stocks *and* cash/bonds in your portfolio. If the market drops like it did in 2001 or 2008, bonds will reduce the downside.

The comprehensive advanced planning we provide for clients, along with in-depth discussions about an appropriate asset allocation based on your long-term plan and tolerance for risk should enable you to ride out any market correction, thus helping you to stick to your investment plan. Your allocation to stocks and bonds is highly dependent upon your unique situation, how long you have before you'll need your money, your short- and long-term goals, and risk and return objectives. Please reach out to your wealth advisor if your situation has changed since your last portfolio review.

About Hemington Wealth Management

Hemington Wealth Management provides high net worth individuals and families with a broad range of wealth management services including portfolio management. We are collaborative, accessible and responsive, making it easy for clients to work with our team.

Hemington Wealth Management

Falls Church, VA Office
7651 Leesburg Pike
Falls Church, VA 22043

Phone 703.828.2479
Toll-free 855.HWM.WLTH (855.496.9584)
Email info@hemingtonwm.com

Chicago, IL Office
150 S. Wacker, Suite 2400
Chicago, IL 60606

Phone 312.757.5339
Email info@hemingtonwm.com