powerhouse assets

Is Now a Good Time to Invest?

MSCI All Country World Index with selected headlines from 2020

350
325
300
275
250
225
200
175
150

1/1/20 4/1/20 7/1/20 10/1/20

New Virus Discovered by Chinese Scientists Investigating Pneumonia Outbreak

Dow Closes at Record as Worries Abate

Dow, S&P, Nasdaq All Drop More than 4% in Largest One-Day Point Declines on Record

Oil Prices Collapse After Saudi Pledge to Boost Output

Record Rise in Unemployment Claims Halts Historic Run of Job Growth

At Least A Fourth Of US Economy Goes Idle from Lockdown

Eurozone Economy Sees Largest Contraction on Record

Recession in US Began in February, Ending 128-month Expansion

US Stocks Close Out Best Quarter Since 1998

Consumer Spending Rose 5.6% in June

Fed Eases Inflation Target in Landmark Decision

US Debt Hits Postwar Record

US Stocks Finish Second Straight Quarter of Big Gains

US Home Sales Rise to New 14-Year High

Dow Eclipses 30,000 for First Time

Joe Biden's Victory Affirmed by Electoral College

Brexit Trade Deal Reached Between UK, EU

US Stocks Notch Records in Final Trading Day of 2020

The S&P 500 Index, which tracks 500 of the largest companies in the US stock market, ended 2020 at 3,756, an all-time high. The MSCI All Country ex US Index, which tracks developed companies outside US, and companies in emerging economies, ended 2020 near the all-time high level it set a day earlier. **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.

What if you were to sell the stocks in your portfolio and put all that money in a savings account? You'll certainly 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.

S&P 500 Index Total Return Highs

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

January 1926–December 2019

Look- Ahead Period	Percent of Cases Where Index Was Higher (after new high)	Avg. Return (after new high)	Percent of Cases Where Index Was Higher (after any previous level)	Avg. Annualized Return (after any previous level)
1 year	81.3%	13.9%	75.4%	12.3%
3 years	84.7%	10.5%	83.9%	10.6%
5 years	85.2%	9.9%	87.8%	10.1%

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 Iwona Cholewa, our CIO, was born in 1975, the S&P was at around 90. How did the index get from 90 to 3,756? 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). The index reached 1500 points in 2000, then 2000 points in 2014, and 3000 in 2019. 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 you had invested $100,000 in the S&P 500 Index on January 1, 2000, including dividends, you would have over $384,000 today. You would have earned this healthy rate of return even though the index went through tough times since then: it crashed in 2001 (Dot Com Bubble), again in 2008 (Global Financial Crisis), and suffered unprecedented selloff in early 2020 (Covid-19 Pandemic). 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 25,000!** And that sounds crazy to us today, but it’s just as crazy as telling Iwona’s parents when she was born that the S&P 500 would exceed 3,700 when they are ready to retire.

As everyone knows, there are no guarantees of continued positive performance, even though over time expected returns are 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 or 2020, bonds will reduce the downside.

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. An appropriate asset allocation, based on your long-term plan and tolerance for risk, should enable you to ride out any market correction, helping you to stick to your investment plan.