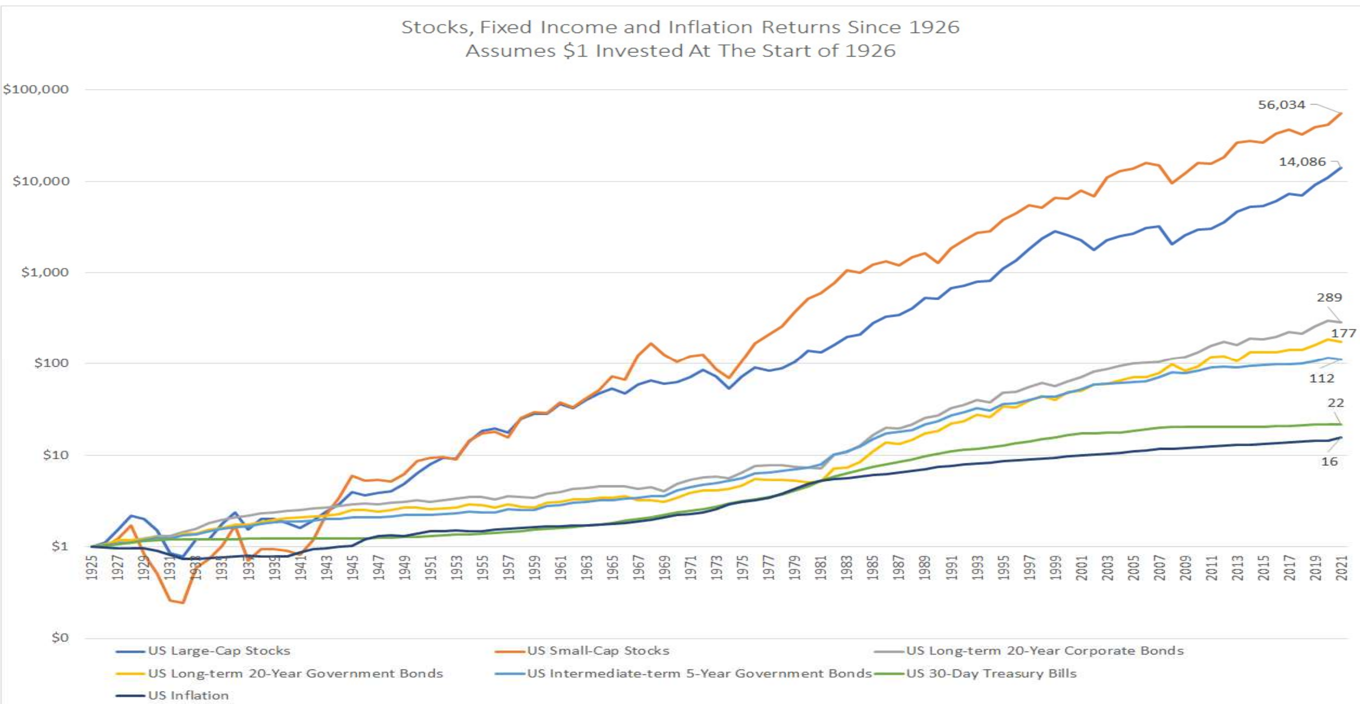
June 2022

Long-Term Stock Investors: Please Keep Calm and Carry On

With the S&P down 13.3% year-to-date through June 3, 2022, it is worth providing some context on the economy and stock market history. The World War II adage “keep calm and carry on” helped the Brits survive the Axis Power’s onslaught in World War II, and it may provide solace to you as well.

Stocks do a great job outpacing fixed income and inflation over the long run

Stocks have shown a great ability to grow your purchasing power over time. Stocks remain an important wealth builder for individuals with a long investment horizon.

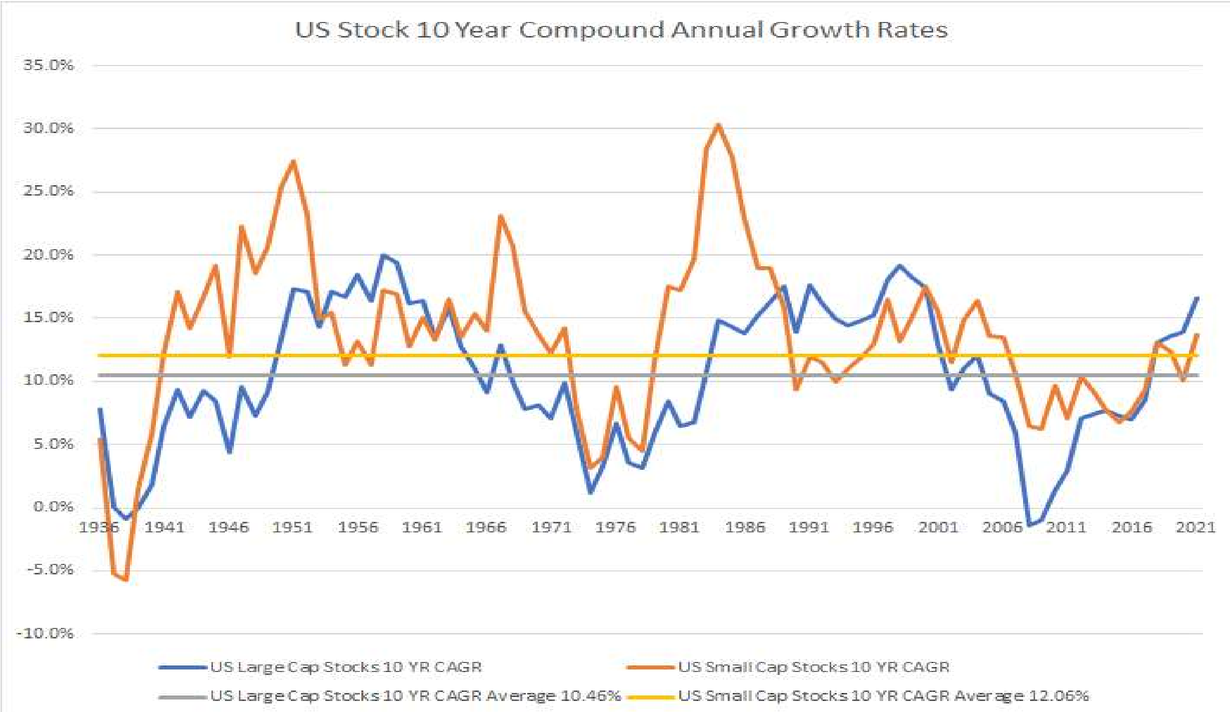


	US Large Cap Stocks	US Small Cap Stocks	20 year Corporate Fixed Income	20 year Govt. Fixed Income	5 year Govt. Fixed Income	30 Day T-Bills	Inflation
Compound Annual Growth Rate	10.46%	12.06%	6.08%	5.54%	5.03%	3.26%	2.90%

Source: CFA Institute and Ibbotson, Candor Asset Advisors

Stocks go through periods of out and underperformance, and recent performance has been above trend

The last ten years have been a good for stocks with average annual returns for US large cap stocks and US small cap stocks registering 16.6% and 13.7% respectively. These returns are above the long run averages of 10.5% for US large cap stocks and 12.1% for US small cap stocks.



Source: CFA Institute and Ibbotson, Candor Asset Advisors

History suggests returns average out over time, and there are periods of above average and below average growth. Given the macroeconomic backdrop, we wouldn't be surprised to see ten-year compound average stock returns retreat over the next few years. Our recent research, "Inflation, Rate Hikes, and Recessions, Oh My: Be Prepared For Depressed Returns Over the Near Term" provides a near-term perspective.

Stock market declines are common

Stock market declines have and will continue to occur on a regular basis and to various degrees.

A history of market declines

Standard & Poor's 500 Composite Index (1951-2021)

Size of decline	-5% or more	-10% or more	-15% or more	-20% or more
Average frequency*	About three times per year	About once per year	About once every three years	About once every six years
Average length†	43 days	110 days	251 days	370 days
Last occurrence	October 2021	September 2020	March 2020	March 2020

* Assumes 50% recovery of lost value.
† Measures market high to market low.

Sources: Capital Group, RIMES, Standard & Poor's. As of 12/31/21.

Stock market corrections, defined as a 10-20% decline in stock prices, have occurred about once a year on average since 1951. Stock bear markets, defined as a 20%+ decline in stock prices, have occurred once every six years on average.

Stock market declines are often brief with a recovery occurring in a few years

Stock bear market declines have averaged 30% since 1950 and occurred over eleven months on average. Also worth noting is that the stock market usually recovers within a few years. The average time it takes to get back to breakeven has been 1.7 years.

S&P 500 Bear Markets Since 1950

Peak	Trough	% Decline	# of Days	Breakeven	# of Days	Years
7/15/1957	10/22/1957	-20.7%	99	9/16/1958	329	0.9
12/12/1961	6/26/1962	-28.0%	196	9/3/1963	434	1.2
2/9/1966	10/7/1966	-22.2%	240	5/4/1967	209	0.6
11/29/1968	5/26/1970	-36.1%	543	3/6/1972	650	1.8
1/11/1973	10/3/1974	-48.2%	630	7/17/1980	2114	5.8
9/21/1976	3/6/1978	-19.4%	531	8/15/1979	527	1.4
11/28/1980	8/12/1982	-27.1%	622	11/3/1982	83	0.2
8/25/1987	12/4/1987	-33.5%	101	7/26/1989	600	1.6
7/16/1990	10/11/1990	-19.9%	87	2/13/1991	125	0.3
7/17/1998	8/31/1998	-19.3%	45	11/23/1998	84	0.2
3/24/2000	10/9/2002	-49.1%	929	5/30/2007	1694	4.6
10/9/2007	3/9/2009	-56.8%	517	3/28/2013	1480	4.1
4/29/2011	10/3/2011	-19.4%	157	2/24/2012	144	0.4
9/20/2018	12/24/2018	-19.8%	95	4/23/2019	120	0.3
2/19/2020	3/23/2020	-33.9%	33	8/18/2020	181	0.5
Averages		**-30.2%**	**338**		**603**	**1.7**

Source: Ritholtz Capital Management, "How Long Do Bear Markets Last", 5/9/22

The worst bear market declines show investors often got back to breakeven within five years. Stock returns within five years of the decline have often been strong.

What have the worst market downdrafts looked like? This study highlights the five largest declines since 1929 and subsequent five-year returns. If you invested $10,000 at the beginning of these market declines, below is how your investment performed thereafter.

	Great Depression	Great Depression & WWII	Oil Crisis	Internet Bubble	Global Financial Crisis
	9/7/29-6/1/32	3/6/37-4/28/42	1/11/73-10/3/74	3/24/00-10/9/02	10/9/07-3/9/09
Initial Investment	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000
Bear Market Bottom	$ 1,378	$ 3,999	$ 5,180	$ 5,085	$ 4,322
Recovery End of Year 1	$ 3,274	$ 6,569	$ 7,481	$ 6,924	$ 7,446
Recovery End of Year 2	$ 3,291	$ 7,157	$ 9,426	$ 7,610	$ 8,793
Recovery End of Year 3	$ 3,502	$ 9,382	$ 9,156	$ 8,257	$ 9,329
Recovery End of Year 4	$ 5,488	**$ 12,402**	**$ 10,236**	$ 9,505	**$ 10,797**
Recovery End of Year 5	$ 6,394	$ 9,935	$ 11,548	**$ 11,222**	$ 13,351
End date	6/1/1937	4/28/1947	10/3/1979	10/9/2007	3/9/2014
Compound Annual Growth Rate	-5.6%	-0.1%	2.2%	1.5%	4.5%
Estimated Average Inflation Rate	-2.3%	4.4%	7.6%	2.6%	1.9%
Real Return	-3.2%	-4.4%	-5.4%	-1.1%	2.6%
bear market # of years	2.8	5.2	1.6	2.5	1.6
full cycle # of years	7.8	10.2	6.6	7.5	6.6

Source: Capital Group, "Keys To Handling Market Declines", CFA Institute and Ibbotson, Candor Asset Advisors

The table highlights that your investment balance recovered to $10,000+ by the fourth or fifth year in all but one instance (1932-1937 during the Great Depression). Reviewing the investment returns over the period, Capital Group sums it up well below.

Five biggest market declines and subsequent five-year periods*
1929–2021

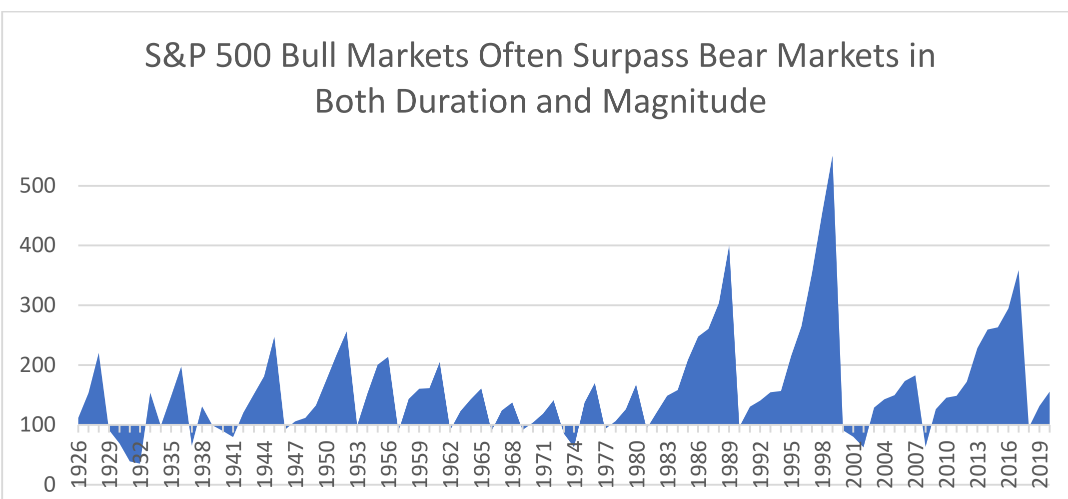
		9/7/29–6/1/32	3/6/37–4/28/42	1/11/73–10/3/74	3/24/00–10/9/02	10/9/07–3/9/09	Average
	Decline	-86.22%	-60.01%	-48.20%	-49.15%	-56.78%	
S&P 500 12-month returns† after low	1st yr.	137.60%	64.26%	44.43%	36.16%	72.29%	70.95%
	2nd yr.	0.52%	8.96	25.99	9.91	18.08	12.69
	3rd yr.	6.42%	31.08	-2.86	8.51	6.10	9.85
23 Positive periods	4th yr.	56.68%	32.19	11.79	15.11	15.74	26.30
2 Negative periods	5th yr.	16.52%	-19.89	12.82	18.06	23.65	10.23
	Five-year average annual total return	35.93%	19.96	17.39	17.15	25.30	23.15
	Value of a hypothetical $10,000 investment in the S&P 500 at the end of the five-year period	$46,401	$24,841	$22,293	$22,067	$30,890	$28,322

Note, the pre 1950 declines were steeper with an average decline of 73%. The downdraft also took longer and averaged 4 years. Post 1950 declines have not been as severe. The average decline has been 51%, and the downdraft took 1.9 years on average.

In all five instances the first-year recovery was particularly strong and averaged a 70.9% return. The five-year average annual total return was also a particularly impressive 23.1%.

It is time in the market, not market timing, that creates wealth for most investors

Studies suggest most investors fail at market timing because they sell at the wrong time, don't invest again and/or invest again too late. The chart below highlights that bull markets are often longer and greater magnitude than bear markets.



Source: CFA Institute and Ibbotson

Studies also suggest disproportionate returns are captured over short time periods.

US stock return studies since the mid 1950s suggest the same thing. Remaining fully invested generated significantly higher returns over the long run.

1954-1994 Return Study

- S&P earned a 11.4% annual return
- If you were out of the market during the best performing days
  - 2% of the time you earned a 8.3% annual return
  - 4% of the time you earned a 6.1% annual return
  - 8% of the time you earned a 2.7% annual return

1998-2017 Return Study

- S&P earned a 7.2% annual return
- If you were out of the market during the
  - Top 10 days 3.5% annual return
  - Top 30 days -.9% annual return
  - Top 50 days -4.4% annual return
  - Top 100 days -11.2% annual return

Past performance is not a guarantee or predictor of future performance. Charts are for illustrative purposes only and do not represent an actual investment or performance of any specific investment. The S&P 500 is an unmanaged index of 500 stocks that is generally representative of the performance of larger US companies. An investor can not invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. Dividends are subject to reinvestment.

- "The Big Money is not in the buying and the selling. But in the waiting." – Charlie Munger
- "Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it." – Warren Buffett
- "The courage to press on regardless- regardless of whether we face calm or rough seas, and especially when the markets howl around us – is the quintessential attribute of a successful investor." – Jack Bogle

Source: Peter Lynch *One Up On Wall Street*, Legg Mason, www.brainyquote.com, www.quotefancy.com

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Lastly, if you used a 20% stop loss strategy and tried to get back in the market 3 to 5 years later, your returns often fell short compared to riding it out.

		10 Year Compound Annual Growth Rate From Start Date		
Month Where US Large Cap Stocks Total Return Cumulative Decline Surpassed 20%	10 years Hence	Ride it Out	Sell out and Invest 3 years Later	Sell Out and Invest 5 Years Later
October-29	October-39	-1.0%	10.1%	6.4%
May-31	May-41	2.3%	3.5%	-1.5%
September-31	September-41	6.3%	5.0%	-1.7%
December-31	December-41	6.4%	3.0%	-3.8%
April-32	April-42	8.7%	2.0%	-4.5%
May-32	May-42	12.3%	2.3%	-3.8%
November-32	November-42	9.4%	0.7%	1.3%
October-37	October-47	8.1%	7.4%	7.7%
March-38	March-48	11.9%	6.9%	11.9%
May-40	May-50	13.8%	8.6%	5.2%
September-46	September-56	18.4%	15.8%	9.7%
June-62	June-72	10.5%	4.8%	3.3%
August-74	August-84	14.2%	9.1%	6.0%
October-87	October-97	17.2%	13.8%	9.5%
July-02	July-12	6.3%	2.6%	0.6%
October-08	October-18	13.2%	14.3%	5.5%
March-20	March-21	?	?	?
Averages		**9.9%**	**6.9%**	**3.2%**
Pre 1950 Averages		**7.2%**	**4.5%**	**1.3%**
Since 1950 Averages		**13.4%**	**9.9%**	**5.7%**

Source: CFA Institute, Ibbotson, Candor Asset Advisors

The table highlights that in all but one instance if you kept calm and carried on your ten-year compound average return outperformed the strategy of selling after enduring a 20% loss and getting back in the market three or five years later.

Closing Thoughts

As the previous charts show, stock market declines are common and can be unsettling to even the most seasoned investors.

While the stock market can be volatile and down in the short run, the stock market has repeatedly demonstrated its ability to serve as a great wealth builder over the long run. It has persisted over time through wars (e.g., World War I, World War II, etc.), health events (e.g., 1918 Spanish flu, SARS, MERS, COVID-19), shocks (e.g., 9/11, Cuban Missile Crisis), bear markets (e.g., 1930s, 1973-74, 2001, 2008/9, 2020), and recessions (e.g., Great Depression, 2008/2009 due to financial crisis, 2020 due to COVID-19).

Regarding your financial situation and proper asset allocation, please consider the following:

- Your liquidity needs – Make sure you set aside the proper amount of money to pay your bills, plan for near and intermediate term large purchases and address emergency events (e.g., job change/loss, medical, auto, home). An emergency fund should usually be allocated with a shorter-term time horizon.
- Your financial plan and investment time horizon – The time period usually corresponds with your life expectancy adjusted for estate planning considerations. Regarding life expectancy, the US Social Security Administration suggests if you are healthy and have an average family healthy history, you should probably plan on living until at least your mid 80s to mid 90s. This observation suggests if you are:
    - Age 30-40: your financial plan time horizon is likely 45+ years
    - Age 40-50: your financial plan time horizon is likely 35+ years
    - Age 50-60: your financial plan time horizon is likely 25+ years
    - Age 60-70: your financial plan time horizon is likely 15+ years
    - Age 70-80: your financial plan time horizon is likely 5-15+ years
- Your risk capacity – How much you should allocate to stocks and fixed income usually reflects the goals of maximizing your wealth, providing for loved ones or charities and/or improving the probability that you don't run out of money. Adding a larger percentage of fixed income to your portfolio as your investment time horizon shortens generally makes sense. Diversification helps as well.
- Your risk tolerance – Be proactive and reflect on how you would react if your portfolio fell by 10-50% like it did during 2020 and year-to-date 2022. Are you losing too much sleep at night and are you beginning to make bad investment decisions?

After reviewing these factors, please let us know if you would like to revisit your asset allocation.

As always please reach out to us if you have questions or comments.

Sincerely,

William E. Hawes, CFA, CFP®
President and Chief Investment Officer
Candor Asset Advisors

June 4, 2022

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