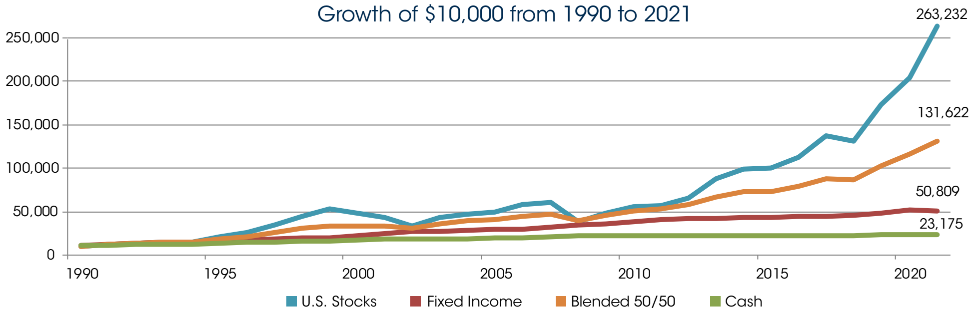
Strategies to Manage the Volatility of the Market Part 1

Downturns in the market are normal, but most are short lived. With the S&P 500 Index as a metric, there have been 14 bear markets since 1945. While they don't occur frequently, a bear market is definitely a normal part of being a long-term investor.

In early 2020, the U.S. had the shortest recovery since 1929. As the world was coming to grips with the onset of a global pandemic, stocks tumbled more than 33% in just over a month before recovering sharply. The recovery was thanks to an unprecedented amount of federal stimulus spending to help keep the economy afloat. The longest recovery was about 21 months from 1973-1974. The average bear market lasts a little more than 11 months versus a 53 month average bull market. The bulls have made up for the periodic market declines.

A $10,000 investment in the S&P 500 Index in 1990 would have grown to $263,232 by December 31, 2021, despite the 51% downturn of 2008-2009 and the 33% downturn in 2020. It is important to note that returns for some market segments may not have recovered, and this is only a select period.



Source: Bloomberg Finance L.P. and S&P 500 Index. Price calculations include dividends and capital gains. Past performance cannot guarantee future results. It is not possible to invest directly in an index. Data as of December 31, 2021.

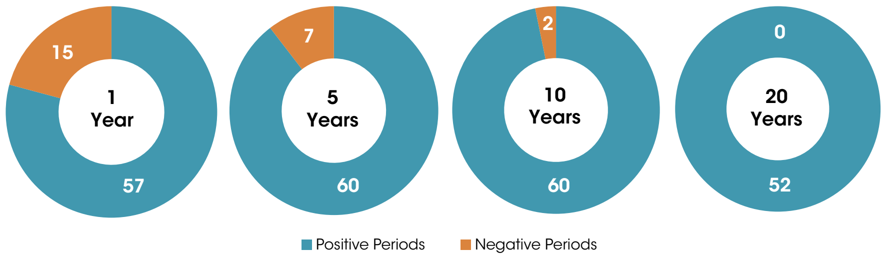
The biggest risk of investing is not being in the market when it goes down, but being out of the market when it goes up.

In 2022, the S&P 500 suffered the worst start since 1970. The market fell 21% during the first half of the year. The 15th bear market began on June 16, 2022, after closing more than 20% below its high on January 3, 2022. Every bear market is different, but the past 70 years hint about what to expect going forward.

For many long-term investors, bear markets end up being more of an opportunity than anything else. This may be the time to consider opportunistically adding to equity positions because prices have declined substantially.

Time in the Market vs Timing the Market

Since 1950, the S&P 500 Index has gone up and down each year. Looking at a short time frame, the one year performance has been up 79% of the time. The charts below show the number of periods that the S&P 500 Index has been up and down over 1, 5, 10 and 20 year rolling periods. History has shown the longer the period, the greater the probability of a positive outcome. The key takeaway is that "Time" is much more important than "Timing" when it comes to long-term market success.



Source: Bloomberg Finance L.P. and S&P 500 Index. Price return calculations include dividends and capital gains beginning in 1989, prior to this date it does not include dividends and capital gains. Annual returns begin in 1950. Rolling 5, 10 and 20 year data begins with the first year of data in 1950. Past performance cannot guarantee future results. It is not possible to invest directly in an index. Data as of December 31, 2021.

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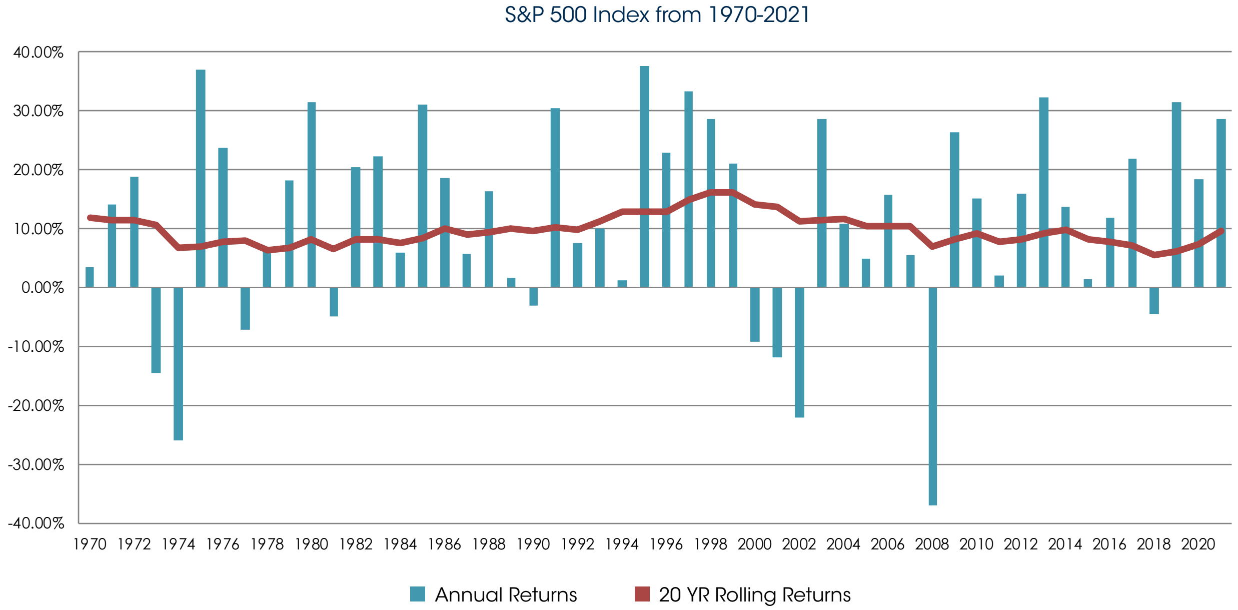
Holding Stocks for the Long-Term Also Reduces Volatility

Market volatility can cause some investors to want to sell, but history shows market gains have made up losses for those investors who stay invested over time. If your focus is short-term, it is very easy to get nervous as the market goes up and down each year. The following chart shows the annual returns of the S&P 500 Index from 1970 – 2021 and shows that there are several years where the market had negative returns, with the most recent negative return in 2018. However, when taking a rolling 20-year period, all have positive returns.



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Next Steps

It is impossible to predict the future, but expecting market volatility is a good bet. Diversification based on your time horizon, goals and tolerance for risk should all be taken into consideration. History shows that diversification and rebalancing are the best tools to reduce portfolio volatility and provide a smoother ride through the peaks and valleys of the market. Contact your Stephens Financial Consultant to discuss strategies to manage market volatility.