CLIENT QUESTION

How has the S&P 500 historically performed over 10-year periods?

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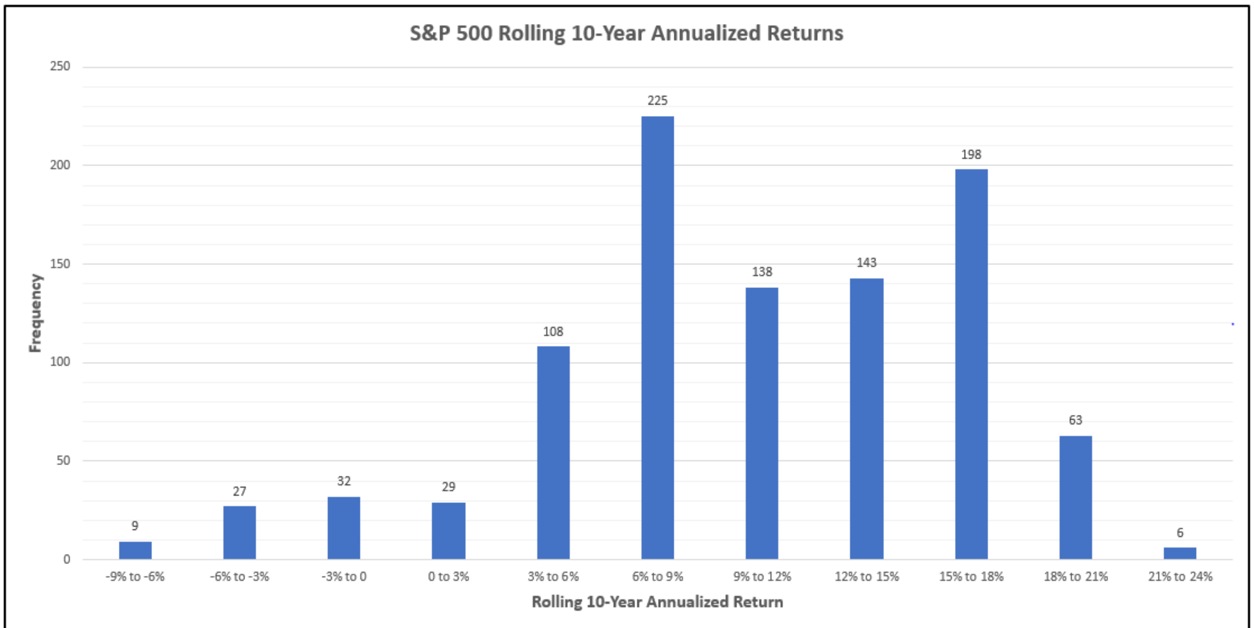
To answer our latest client question of the month we examined rolling 10-year periods for the S&P 500 from January 1928 through May 2019. Rolling time period analysis allows for a larger data set than calendar year periods. Since the start of 1928, there have been 978 total rolling 10-year periods (January 1928 to December 1937, February 1928 to January 1938, March 1928 to February 1938, etc.).

Of the 978 total periods, 910 (93.0%) have generated positive returns while 68 (7.0%) produced negative results. The negative 10-year return periods all occurred during severe economic recessions and market weakness, including, the Great Depression (1930s), Tech Bubble (early 2000s), and Global Financial Crisis (2008). We will also point out that the first 43 rolling 10-year periods of our data set (starting in January 1928) had negative returns.

The average rolling 10-year annualized return over the stated time was +10.29%, with 93.0% of periods generating positive returns. Note that the latest 10-year period (June 2009 to May 2019) has produced a total annualized return of +13.93%, which is greater than the historical average. However, keep in mind that the latest period starts right after the end of the Global Financial Crisis, and thus part of the strong return is a rebound from depressed levels. Investors should acknowledge that recent rolling 10-year period returns have been stronger than the historical average, and should be prepared for the potential of more moderate returns going forward.



Total 10-Year Rolling Periods	978					
Positive Periods	910	93.0%	Average 10-Year Annualized Return	10.29%	Best 10-Year Period (June 1949 - May 1959)	22.04%
Negative Periods	68	7.0%	Median 10-Year Annualized Return	10.10%	Worst 10-Year Period (September 1929 - August 1939)	-8.30%

SOURCE: Bloomberg (2019)

Our main takeaway from this analysis is that equities have generally produced positive results over long-time periods. This reinforces our philosophy that the best approach is to maintain a long-term viewpoint as equity markets can be extremely volatile over short time periods. Historically, equity markets have been an excellent source of wealth creation, however, it is important to note that market returns are not linear. In other words, equities do not rise by an equal amount every week, month, year, or even decade. Some periods are significantly better than others. The longer the investment time horizon the greater the odds of positive returns.

Investors with long time horizons can likely afford to ride through negative periods unless they shoot themselves in the foot by selling their equities out of nervousness or frustration and locking in their losses. Periods of market weakness also create opportunity for long-term investors as they can reallocate to more attractive securities, execute tax loss harvesting strategies, and/or add new money to purchase at lower prices. We understand that no one likes market declines, but we can use these periods to our client's advantage by making meaningful adjustments and improvements to their portfolios.

What happens if my retirement falls within a 10-year period of negative market returns?

Investors who are in retirement, have shorter time horizons, and/or are withdrawing from their portfolio to fund their living expenses should make sure they have a comprehensive financial plan in place that accounts for the possibility of market weakness. Without a financial plan, the investor faces serious risk of having an improper asset allocation at an unfortunate time. A common and costly mistake is not planning for a scheduled cash flow need in advance, and then needing to fund it by selling equities AFTER a significant market decline. At Winthrop Wealth Management, we help our clients navigate through challenging markets by ensuring their short-term cash flow needs are covered, while managing the rest of their asset allocation for longer-term goals.

At Winthrop Wealth Management, we implement a proactive approach to both comprehensive financial planning and investment management. Financial planning drives the investment strategy and provides a roadmap to each client's unique goals and objectives. The comprehensive financial plan defines cash flow needs, optimizes account structures, considers tax minimization strategies, and continuously evaluates financial risks as circumstances and/or goals change. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection. As always, please contact us if you have any updates to your personal or financial circumstances.

DISCLOSURES:

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Investing involves risk including loss of principal. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

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