CAMMACK RETIREMENT

Lessons Learned from Past Market Downturns

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Americans cannot hide from the recent market volatility and the barrage of negative news surrounding the COVID-19 pandemic. The speed of the recent stock market decline over the last few weeks is something we have not witnessed since the abrupt market crash on Black Monday in 1987. While the catalyst and depth of market decline in each downturn may differ, the feelings of fear and uncertainty that investors face are remarkably the same.

It is hard to sit tight when the market is sliding. However, looking back through history may provide some insights as to what investors should be doing to deal with the recent market volatility.

LESSON 1: MARKET DOWNTURNS HAPPEN EVERY NOW AND THEN

When the good times are rolling, many investors become complacent and assume that the good times will last forever. But like it or not, all business cycles eventually do come to an end. Whether driven by late-cycle excesses or an unforeseen pandemic such as the coronavirus, a market downturn is likely to happen in every investor's lifetime. This is an inevitable part of investing.

Fortunately, we have only had a limited number of bear markets (defined as a decline of over 20% or more) over the last century. Listed below are the past bear markets and the triggers that preceded each downturn. No matter how hard policymakers work to stabilize the financial system during each crisis, returns on risk assets are likely to suffer losses for some length of time. The length and severity of each downturn varies from crisis to crisis, but the common theme is that they all eventually come to an end.

Bear Market Triggers	Peak	Trough	Duration (months)	S&P 500 % Decline	1-Year Return after Trough
Great Depression	9/3/1929	7/8/1932	34	-86%	124%
Government Austerity Measures/WW2	3/10/1937	4/28/1942	61	-60%	59%
End of Post WW2 Demand Surge	5/29/1946	6/13/1949	37	-30%	42%
Global Political Uncertainty	8/2/1956	10/22/1957	14	-22%	31%
Bay of Pigs/Cuban Missile Crisis	12/11/1961	6/26/1962	6	-28%	33%
Vietnam	2/9/1966	10/7/1966	8	-22%	33%
Vietnam/Nixon	11/29/1968	5/26/1970	18	-36%	44%
Bretton Woods Ends/Oil Embargo	1/11/1973	10/3/1974	21	-48%	38%
Volcker Fed Stamps Out Inflation	11/28/1980	8/12/1982	21	-28%	58%
Black Monday	8/25/1987	12/4/1987	4	-34%	23%
Oil Price Shocks	7/16/1990	10/11/1990	3	-20%	29%
Dot.com Bubble Burst	3/24/2000	10/9/2002	31	-49%	34%
Subprime Mortgage Crisis	10/7/2007	3/9/2009	17	-59%	68%
Trade Wars/Global Growth Concerns	9/20/2018	12/24/2018	3	-20%	37%
Average			**20**	**-39%**	**47%**

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Living through one of these periods will undoubtedly make investors nervous. While the losses may feel dramatic right now and it may take a while to recover, the good news is that market declines do not last forever. As difficult as it may be, it is important to keep a long-term perspective and resist the urge to make sudden shifts to asset allocation decisions.

LESSON 2: NO ONE CAN PREDICT THE RIGHT TIME TO GET INTO OR OUT OF THE MARKET

As much as charts and historical parallels can be helpful, it is extremely challenging for anyone to accurately predict the future. Two common mistakes we see many investors make are buying stocks after they have risen dramatically, thinking that the strong past returns will continue forever, and conversely, losing patience as losses continue to mount and selling their stock positions at or near the end of a downturn. History has shown that time in the market is better than trying to time the market. As highlighted in our article, Navigating Retirement Portfolios During Market Volatility, making emotional decisions tends to lead to poor investment results.

With the ongoing pandemic sweeping the nation, investors should be weary of market commentators suggesting to buy-the-dip, which refers to purchasing an asset after there has been a substantial drop in price, hoping for a quick rebound. While it is smart to avoid panic in a falling market, it does not mean that investors should become overly aggressive. This is essentially another form of trying to time the market. Now is not the time to abandon well-thought-out asset allocations simply because one sector of the market is suddenly cheaper than it was a few months ago.

LESSON 3: AVOIDING BIG BETS CAN HELP LIMIT DOWNSIDE

We are all familiar with the old adage, “Don’t put all your eggs in one basket.” This could not be more true when the concept is applied to investing. Diversification, or holding a mix of stocks and bonds in a portfolio, is one of the best strategies for weathering a market downturn.

The chart below displays the periodic table of calendar year returns by asset class category. Looking back at both recent and distant history, it is apparent that asset class returns vary from year to year, sometimes significantly. Very rarely does a single asset class consistently rank at the top of the list; more frequently, a single asset class varies between top and bottom in any given year.

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		10 Yr Av Return	10 Yr Standard Deviation	10 Yr Sharpe Ratio
Real Estate 28.0	Inflation Protected Bond 13.6	Real Estate 19.7	Small Cap Stock 38.8	Real Estate 28.0	Real Estate 2.8	Small Cap Stock 21.3	Emerging Market Stock 37.3	Money Market 1.9	Large Cap Stock 31.5	Best Performance	Large Cap Stock 13.6	Money Market 0.2	High Yield Bond 1.2
Small Cap Stock 26.9	Real Estate 8.3	Emerging Market Stock 18.2	Mid Cap Stock 34.8	Large Cap Stock 13.7	Large Cap Stock 1.4	High Yield Bond 17.5	Foreign Large Blend 24.2	Intermediate Bond 0.0	Mid Cap Stock 30.5	↑	Mid Cap Stock 13.2	Intermediate Bond 2.9	Intermediate Bond 1.1
Mid Cap Stock 25.5	Intermediate Bond 7.8	Mid Cap Stock 17.3	Large Cap Stock 32.4	Mid Cap Stock 13.2	Intermediate Bond 0.6	Mid Cap Stock 13.8	Large Cap Stock 21.8	Inflation Protected Bond (1.3)	Real Estate 28.7		Real Estate 12.6	Inflation Protected Bond 4.4	Large Cap Stock 1.0
Emerging Market Stock 18.9	High Yield Bond 4.4	Foreign Large Blend 16.4	Foreign Large Blend 21.0	Diversified Portfolio 6.8	Money Market 0.0	Large Cap Stock 12.0	Mid Cap Stock 18.5	High Yield Bond (2.3)	Small Cap Stock 25.5		Small Cap Stock 11.8	High Yield Bond 5.8	Mid Cap Stock 0.9
High Yield Bond 15.2	Large Cap Stock 2.1	Small Cap Stock 16.4	Diversified Portfolio 14.4	Intermediate Bond 6.0	Inflation Protected Bond (1.4)	Emerging Market Stock 11.2	Small Cap Stock 14.7	Real Estate (4.0)	Foreign Large Blend 22.5		Diversified Portfolio 7.8	Diversified Portfolio 9.7	Real Estate 0.8
Large Cap Stock 15.1	Diversified Portfolio 0.8	Large Cap Stock 16.0	High Yield Bond 7.4	Small Cap Stock 4.9	Diversified Portfolio (1.4)	Real Estate 8.6	Diversified Portfolio 14.5	Large Cap Stock (4.4)	Diversified Portfolio 19.8		High Yield Bond 7.5	Large Cap Stock 12.5	Diversified Portfolio 0.8
Diversified Portfolio 12.8	Money Market 0.1	High Yield Bond 15.6	Real Estate 2.9	Inflation Protected Bond 3.6	Mid Cap Stock (2.4)	Diversified Portfolio 7.9	Real Estate 8.7	Diversified Portfolio (5.2)	Emerging Market Stock 18.4		Foreign Large Blend 5.3	Mid Cap Stock 13.8	Small Cap Stock 0.7
Foreign Large Blend 9.0	Mid Cap Stock (1.6)	Diversified Portfolio 12.2	Money Market 0.1	High Yield Bond 2.5	Foreign Large Blend (3.0)	Inflation Protected Bond 4.7	High Yield Bond 7.5	Mid Cap Stock (9.1)	High Yield Bond 14.4		Intermediate Bond 3.8	Foreign Large Blend 14.4	Inflation Protected Bond 0.7
Intermediate Bond 6.5	Small Cap Stock (4.2)	Inflation Protected Bond 7.0	Intermediate Bond (2.0)	Money Market 0.0	Small Cap Stock (4.4)	Foreign Large Blend 2.8	Intermediate Bond 3.5	Small Cap Stock (11.0)	Intermediate Bond 8.7		Emerging Market Stock 3.7	Real Estate 14.8	Foreign Large Blend 0.4
Inflation Protected Bond 6.3	Foreign Large Blend (12.2)	Intermediate Bond 4.2	Emerging Market Stock (2.6)	Emerging Market Stock (2.2)	High Yield Bond (4.6)	Intermediate Bond 2.7	Inflation Protected Bond 3.0	Foreign Large Blend (14.1)	Inflation Protected Bond 8.4	↓	Inflation Protected Bond 3.4	Small Cap Stock 17.0	Emerging Market Stock 0.3
Money Market 0.1	Emerging Market Stock (18.4)	Money Market 0.1	Inflation Protected Bond (8.6)	Foreign Large Blend (4.3)	Emerging Market Stock (14.9)	Money Market 0.3	Money Market 0.8	Emerging Market Stock (14.6)	Money Market 2.3	Worst Performance	Money Market 0.6	Emerging Market Stock 17.2	Money Market -1.1

Investors do not pay as much attention to performance when markets are going higher. However, when economic conditions begin to weaken, or the markets are hit with an unforeseen shock, the benefits of having a diversified portfolio are much more evident. While there is no magic asset allocation mix that can completely shield investors from losses, a properly diversified portfolio can help cushion the blow.

WHAT SHOULD INVESTORS DO NOW?

Investors should stay invested, even if it feels painful right now. Corrections and bear markets should not cause investors to deviate from their long-term plans. This is as true for someone just starting their career, as it is for someone nearing retirement. However, this does not mean that investors should adopt a "set-it-and-forget-it" mentality. Investors should always make sure the risks they are taking in their investment portfolios make sense for their current circumstances. Unfortunately, sharp market corrections, like the one we are experiencing right now, can sometimes serve as a wake-up call to many investors. If investors have not looked at their portfolios lately, now might be a good time to get reacquainted; however they should resist the urge to make sudden shifts.

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