

THE PRICE OF ADMISSION

“The stock market is a device to transfer money from the impatient to the patient.”

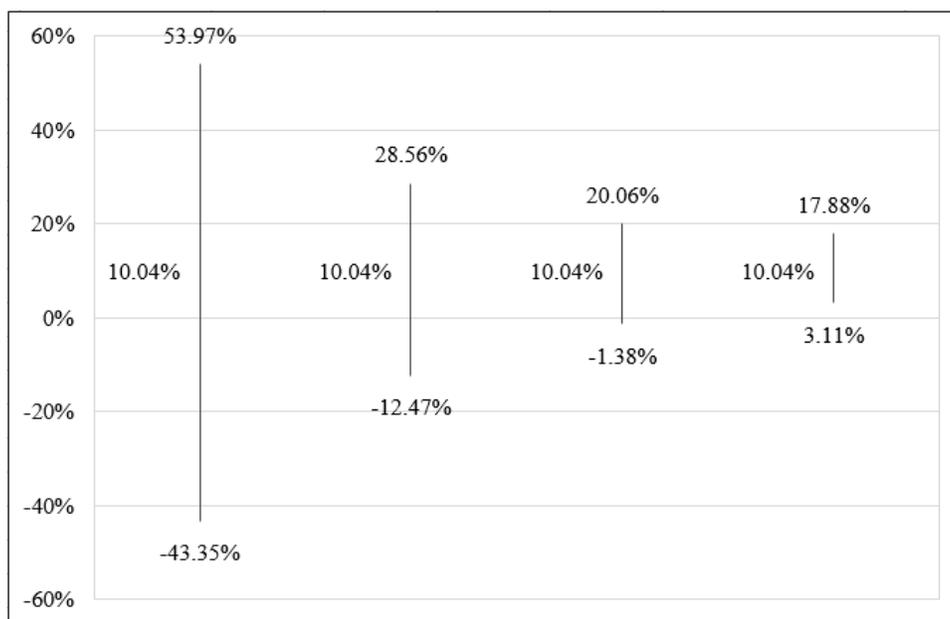
-Warren Buffett

Price of Admission to Access Long-Term Returns

Long-term stock market returns definitely do not come in nice, straight lines. To achieve these returns requires living through painful short-term time periods. As the chart below shows, one -year returns have historically had a wide distribution of returns. The chart also shows longer periods returns have had much lower variation.

Standard & Poor's 500 Index
Overlapping Returns Annualized

Annual: 1926–2016



	1 Year	5 Year	10 Year	20 Year
Highest Return	53.97%	28.56%	20.06%	17.88%
Annualized Return (1926–2016)	10.04%	10.04%	10.04%	10.04%
Lowest Return	-43.35%	-12.47%	-1.38%	3.11%

Simple But Not Easy

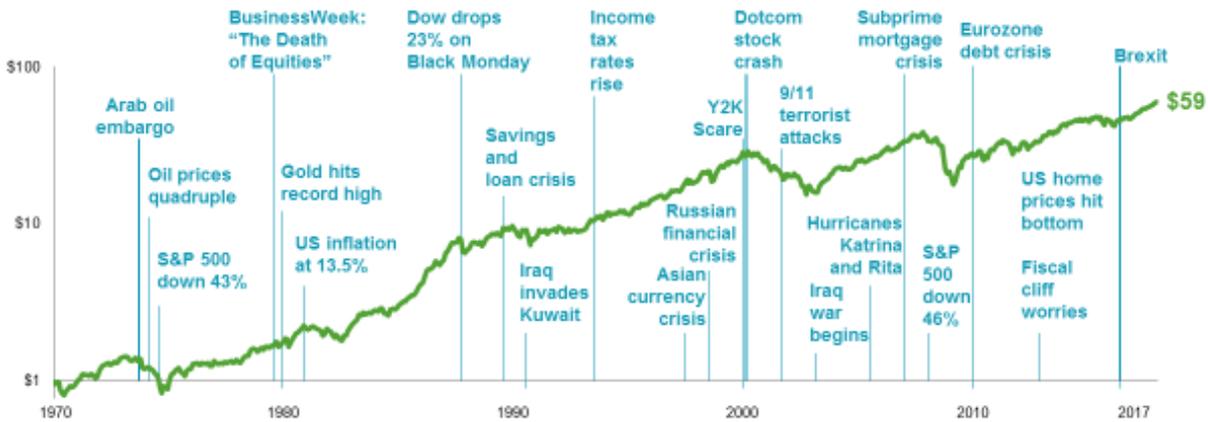
“A lot of people with high IQs are terrible investors because they’ve got terrible temperaments. You need to keep raw, irrational emotion under control.”

-Charlie Munger

We emphasize simplifying the portfolio management process for these types of moments. Watching this December’s stock market certainly goes into the “not easy” pile. It’s natural human behavior to look at this recent quarter returns and want to question your investing strategy. The thought goes “looking at long-term stock market charts, it seemed easy so something must be wrong now”. Unfortunately, those long-term charts do not include interviews with market participants over that time period. If they did, they would say it’s never that easy, nor was it ever that way. As a refresher, here is a chart showing returns along with events that have occurred along the way. Keeping the big picture while in the moment is helpful.

Markets Have Rewarded Discipline

Growth of a dollar—MSCI World Index (net dividends), 1970–2017



A disciplined investor looks beyond the concerns of today to the long-term growth potential of markets.

In US dollars. MSCI data © MSCI 2018, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

A Few Helpful Stats

The S&P 500 from January 1926 through November 2018 has had 698 months where the returns were positive. That’s 698 out of 1,115 months or 62.6%.¹ Imagine if your strategy was at the beginning of each month to guess whether the stock market was going to go up or down. Those are some difficult

¹ Source: Dimensional Fund Advisors LP

odds². It's not hard to understand why investors have collectively been poor at timing these decisions. Market timing is tough, but at the first sign of trouble that is the natural instinct. In fact, the Oracle of Omaha, Warren Buffett, believes market timing is one of the top 3 investor mistakes to avoid.³

Future Path is Uncertain

Some people will say they knew December returns were going to be bad. The potential for these months is always there. To guess correctly the exact month and the exact depth of the market move would be difficult to distinguish between luck and skill. However, humans like certainty and order, so it is challenging for people to think luck played a significant role.

As we move forward, we should acknowledge that based on history, the short-term future path of stock returns has a wide variation. The long-term investor's advantage over a short-term trader is being able to not get overly excited or distraught about this variation. We should simply get more comfortable that bumps in the road are the admission ticket to achieving greater long-term returns.

Merry Christmas

Thank you for sharing with us the ups and downs of your lives. We get to experience births, graduations, marriages, and unfortunately deaths throughout the year. Just like stock markets, we probably take for certain too many gifts in our lives. We hope this holiday season everyone can take some time and be thankful for people in their lives. Despite what the headlines say, we still have many blessings to be thankful for.

From your McCarthy Grittinger Financial Group team, we wish everyone a Merry Christmas.

² My dad had his kids flip a coin to see whether we got a ride to school. I can tell you that with 50% odds, we did our fair share of walking to school and second guessing our morning decisions. "We called heads yesterday and it didn't work, so let's call tails today." That strategy was not helpful, nor were the results very good.

³ <https://www.usatoday.com/story/money/personalfinance/2013/10/26/warren-buffett-investment-advice/3188499/>