VIEWPOINTS
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"The four most dangerous words in investing are: 'This time it's different.'"
- Sir John Templeton

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Whether you have spent five decades trading stocks, bonds, and commodities, or you just opened a Coinbase account to chase the next cryptocurrency fad, you have come across our intro quote. We even joked about it in our last Viewpoints when we discussed the worry over the upcoming election and how the risks were different this time ... save for the fact that it is still the same two old white guys running against each other. The quote is often used to warn investors that they shouldn't ignore history and take heed of the pitfalls that may be in front of them. Yet as we continue to study markets, learn from our environment, and apply those learnings to portfolio management we are struck with a twist on the same old adage – it is differently the same, every time.

What do we mean by that? Allow us to explain. In our last Viewpoints, we talked about how every election year, there is a worry about which candidate will be elected and what party will take power. Every few years, the party in power is different, but the market response is usually the same. Democrats held court in the Oval Office, then Republicans, then back to Democrats. Markets were up in 13 of the last 15 calendar years. A young freshman Senator took control in Obama, then a businessman turned reality TV star in Trump, followed by a career politician in Biden. While these were different characters with wildly different backgrounds, the S&P 500 had an average return of 14.79% in the last 15 calendar years, slightly better than its average return of 12.06% return over the last 30 calendar years. The building blocks were different, the trajectory was similar. Differently the same.

Looking at that 30 year time period, we are struck by the same theme as we think about the big picture risks.

- Three decades, three wars in the middle east - Iraq/Kuwait in the 90's, US/Iraq/Afghanistan in the 00's, Israel/Palestine/possibly Iran now?
- Economic expansions in the mid 90's and 2010s, booms in the late 90's and post COVID 2020's, bubbles in the end of the 90's and mid 2000's, busts in the early 2000's and after the 2008 global financial crisis.
- Inflation, deflation, stagflation, falling rates, negative interest rates, rising rates, it's all come to fruition over the last 30 years.

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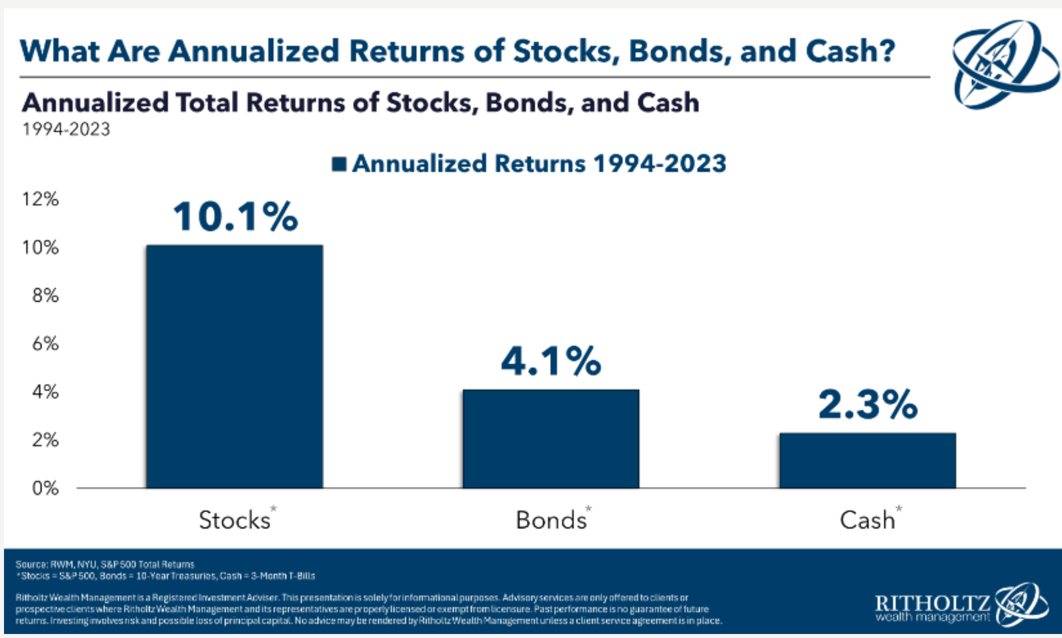
Each individual year presented its own risk, each decade had its own theme, they were all different, yet all at once the same … differently the same.

If we look at market returns over the last thirty years, an investment in stocks at the start of those three decades returned 10.1%, annually. Double digit market returns in spite of a tech bubble bursting, a global financial crisis, a pandemic, and no shortage of geo-political events. Bond investments have been a bust over the last five years with interest rates rising, but over the last thirty years they have returned 4.1%, annually.



If you were given a crystal ball in 1994 that showed you all the headlines that were to come, perhaps you would have opted for cash. While the returns were positive at 2.3%, they were eclipsed by inflation and were dwarfed by stocks and bonds.

Looking forward, the current environment is the same as the ones we have seen before in that there is economic uncertainty, a major political event on the horizon, and the Federal Reserve is at center stage with interest rate policy. It is also the same in that stocks, while trading at above-average valuations, still offer compelling long-term return prospects and are a necessary driver for capital appreciation in an investor's portfolio. What is different is that because of elevated interest rates and unique secular themes occurring in the U.S. (onshoring, infrastructure expansion, and the expansion of AI) there are unique opportunities to complement stocks in a diversified investor's portfolio that have not been present in recent memory. These opportunities can meet certain planning needs whether it is bonds through their elevated income and volatility reduction or alternative investments through diversified cash flow and growth prospects. A portfolio may look different than it has over the last decade, but the goal is the same – to meet our client's short- and long-term objectives while taking minimal risk.

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1: All market data via Kwanti, as of 4/30/2024
2: Chart via Ritholtz Wealth Management - https://awealthofcommonsense.com/2024/04/30-years-of-financial-market-returns