GLOBAL WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

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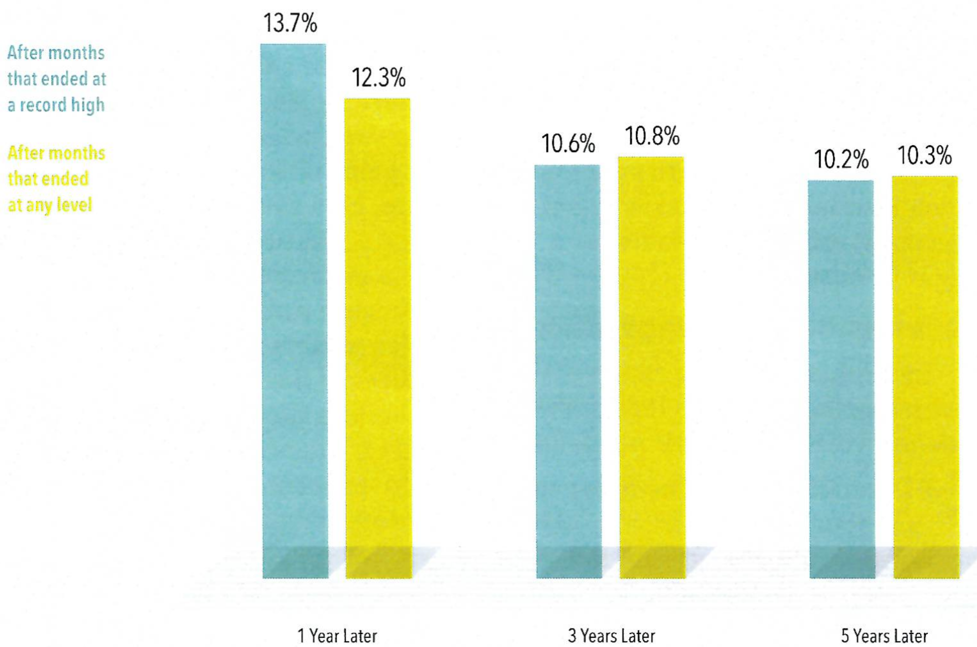
Why a Stock Peak Isn't a Cliff

S&P 500 INDEX, AVERAGE ANNUALIZED COMPOUND RETURNS
1926–2023



Many investors may think a market high is a signal stocks are overvalued. However, they may be surprised to find that the average returns one, three, and five years after a new month-end market high are similar to those after months that ended at any level.

- In looking at all monthly closing levels between 1926 and 2023 for the S&P 500 index; 31% of them were new highs.
- After those highs, the annualized returns ranged from almost 14% one year later to more than 10% over the next five years, which were close to average returns over any period of the same length.

Stocks are priced to deliver a positive expected return for investors, so reaching record highs regularly is the outcome one would expect.

In US dollars. For illustrative purposes only. New market highs are defined as months ending with the market above all previous levels for the sample period. Annualized compound returns are computed for the relevant time periods subsequent to new market highs and averaged across all new market highs observations. There were 1,175 observation months in the sample. January 1926–December 1989: S&P 500 index, Stocks, Bonds, Bills and Inflation Yearbook™, Ibbotson Associates, Chicago. January 1990–present: S&P 500 index (total return), S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

A Personal Note from Global Wealth Advisors

The Federal Reserve met last month and decided to keep interest rates unchanged. The board still feels that inflation has not come down enough and that economic growth will continue above their benchmark 2% target for the rest of this year. They also indicated that they still expect to reduce interest rates three times by the end of this year.

Investors reacted positively to the news and the S&P 500, DJIA, and Nasdaq stock market indices climbed to record highs. The eventual lowering of rates is good news for the economy as it lowers the financing costs for big ticket items like homes and automobiles and even credit card balances.

The balancing act the Fed is trying to manage is if they lower rates too quickly, inflation can start to rise again and undo what they have already achieved. If they lower rates too slowly, they run the risk of the economy slowing down too much and possibly entering a recessionary period.

As always, the weekly, monthly, or ever quarterly variations in the stock market averages are part of equity investing. The benefits are achieved over the long-term, so stay with it and you will be glad you did. ○○○

Managing Investment Risk

Risk — the possibility of losing money — is one of the most feared words in investing. So what gives some people the ability to control their emotions and make cool and calm decisions? Two main reasons are that they know how to measure risk and how to manage it.

Two Ways of Measuring Risk

Beta — Professionals have two common ways to measure risk. The first is beta, which is how closely a portfolio's performance matches or varies from that of a benchmark index. The benchmark for large-company U.S.-traded stocks is the S&P 500 stock index, while a general benchmark for bonds of medium-range maturity is the Barclay's Aggregate Bond index. The performance of indexes is normally expressed as a percentage and reflects their total return, which is a combination of any interest or dividend payments and their change in price.

Beta is expressed as a number on an open-ended scale, and it can be a positive number, a negative number, or zero. A beta of 1.0 means a stock or portfolio's returns are identical in both size and direction to the benchmark, while a beta of -2.0 means the portfolio's returns are twice as large in the *opposite* direction of the index. For example, when the S&P 500 index return is 12%, a portfolio with a beta of 1.0 should also return 12%, while a stock with a beta of -2.0 should lose 24%. A beta of 0.0 means there is no patterned relationship between the two returns.

Standard deviation — A second way professionals measure investment risk is with standard deviation. Expressed as a percentage, it reflects a range of returns above and below an annual average rate of return for the stock or portfolio itself, without reference to a benchmark. It's standard deviation that measures the way many define risk: volatility.

In statistics, when applied to investment returns, one standard deviation covers about two-thirds of all returns. So a portfolio that has an average rate of return of 9% and a standard deviation of 12% means that in six to seven years out of 10, the portfolio's returns range between -3% and 21%. In general, a lower standard deviation is better, because it reflects less chance of a negative return.

Techniques to Manage Risk

Individual investors can use several methods to help reduce the risk and volatility in their portfolios:

✔ **Diversification.** The fewer the number of securities you own in your portfolio, the greater the risk that one or more will produce losses that reduce your ability to generate positive compound returns. In a stock portfolio, that usually means owning stocks of at least 10 different companies from at least five different sectors (such as, but not limited to, technology, consumer staples, finance, energy, and basic materials).

✔ **Asset allocation.** This refers to spreading your investments over the three classic asset classes (stocks, bonds, and cash) according to a formula that potentially matches the rate of return you need to meet your goals. The formula determines what percentage of your holdings should be from each asset class (e.g., 70% stocks, 25% bonds, and 5% cash). Because bonds and cash generate more steady (if smaller) average returns than stocks, the more of each included in your portfolio, the less volatile your overall returns should be.

✔ **Dollar cost averaging.** This is a technique that puts price declines to your advantage. It involves making periodic purchases in the same dollar amount of the same securities, in good markets and bad. When you continue to buy shares when their prices fall, you buy more shares than when the prices are higher. This gives you more shares, which increases your dollar gains when prices start going back up. However, it neither guarantees a profit nor protects against loss in a prolonged declining market. Because dollar cost averaging involves continuous investment regardless of fluctuating price levels, investors should carefully consider their financial ability to continue investment through periods of low prices.

✔ **Portfolio rebalancing.** This is a two-step process by which you restore your holdings to the proportions defined by your asset allocation strategy. The first step is to sell a portion of the investments in those asset classes where your holdings have grown to be larger than their prescribed percentage. The second step is to use the sale proceeds to buy more of the securities from those asset classes whose proportions have become too small. This provides a benefit similar to that obtained by dollar cost averaging.

Managing risk isn't about avoiding all losses, since they are an inevitable part of the investment process. Instead, it's about minimizing your losses while achieving the rate of return you need to reach your financial goals. OOO

A Familiar-Looking Leap Year

ABOVE THE FRAY

Feb 29, 2024

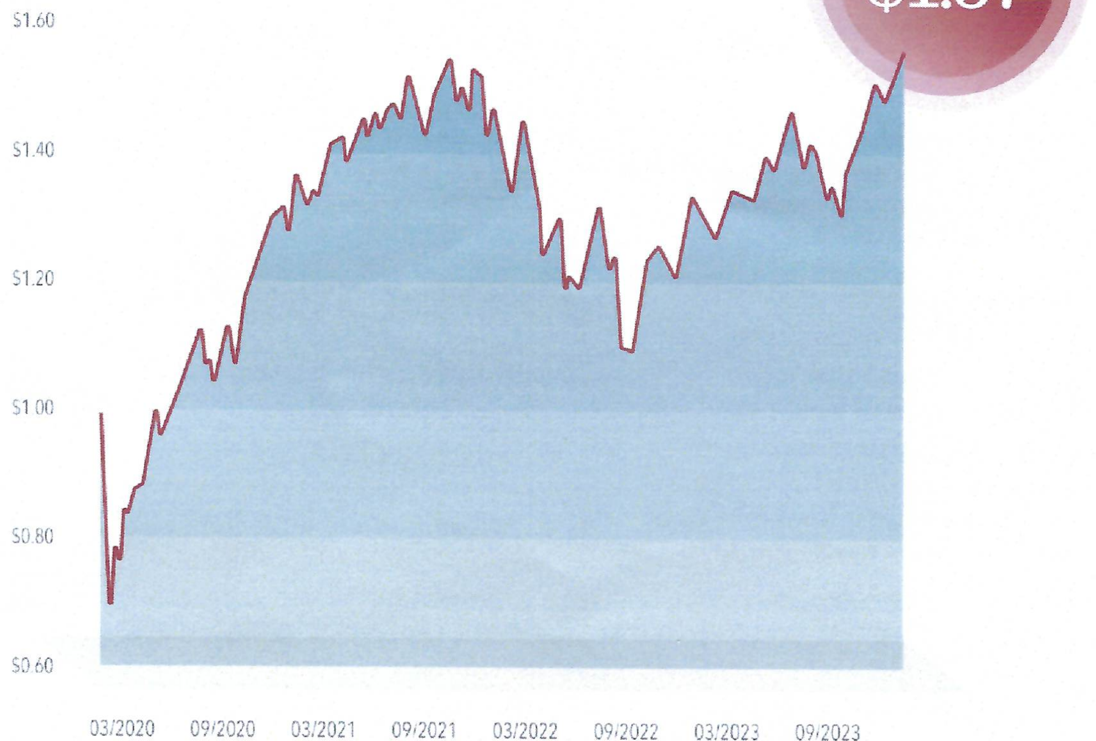
Wes Crill, PhD. Dimensional Fund Advisors LP

Leap day this year has some interesting parallels to 2020. We're one week removed from a new high in the US stock market. Billie Eilish won Song of the Year at the Grammys. And the Kansas City Chiefs defeated the San Francisco 49ers in the Super Bowl. Amazingly, these same events unfolded before leap day four years ago. Hopefully, not everything from the past four years repeats. I'd certainly prefer avoiding another pandemic, in particular. But it's worth noting how the stock market rewarded disciplined investors during a tumultuous period. In addition to the pandemic, we continue to face a contentious political environment, the Ukraine-Russia and Israel-Hamas conflicts, as well as regional banking and government debt concerns in the US. And yet, despite all these events, the global equity market rose by 57%.1 Even if the next stretch between leap days echoes the last one, investors could still have a positive outcome from stocks.   ❍❍❍

Exhibit 1

Leaping Forward

Growth of $1 for the MSCI All Country World IMI Index (net div., USD), March 1, 2020–February 23, 2024



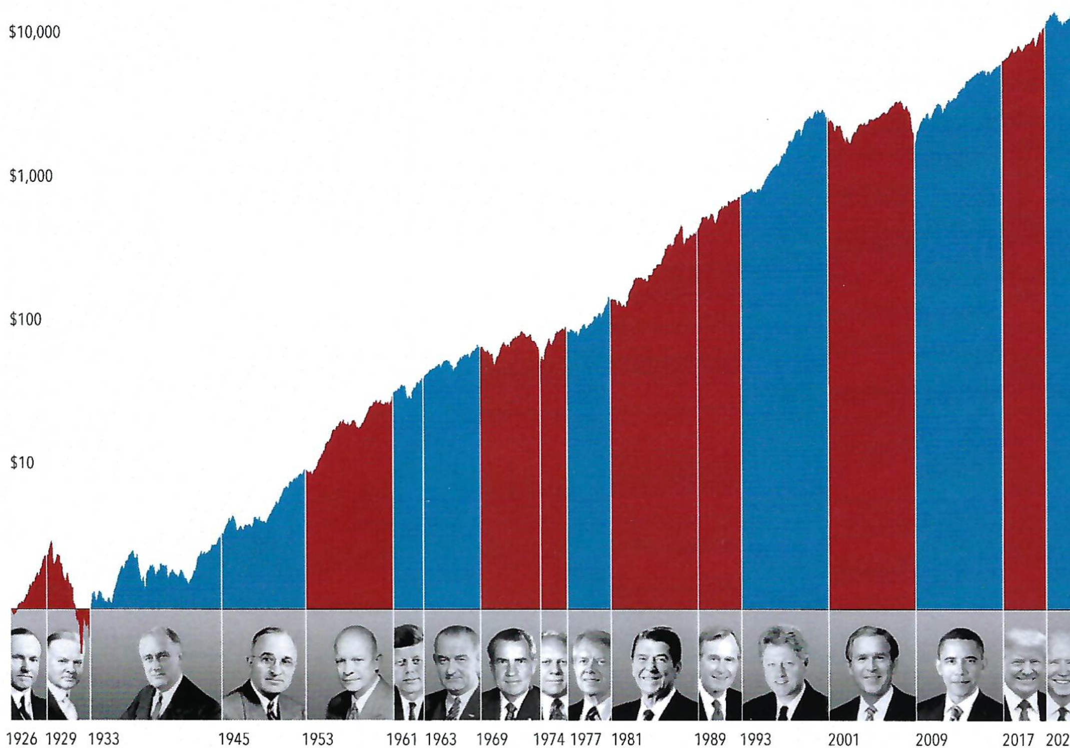
Past performance, including hypothetical performance, is no guarantee of future results.

Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Data presented in the Growth of $1 chart is hypothetical and assumes reinvestment of income and no transaction costs or taxes. The chart is for illustrative purposes only and is not indicative of any investment.

1. *Based on the MSCI All Country World IMI Index (net div. USD) from March 1, 2020, to February 23, 2024.*

The Market and US Presidential Elections

HYPOTHETICAL GROWTH OF $1 INVESTED IN THE S&P 500 INDEX
1926–2023



It's natural for investors to look for a connection between who wins the White House and which way stocks will go. But regardless of who wins, nearly a century of returns shows that stocks have trended upward.

- Shareholders are investing in companies, which focus on serving their customers and growing their businesses, regardless of who is in the White House.
- US presidents may have an impact on market returns, but so do many other factors—the actions of foreign leaders, interest rate changes, changing oil prices, and technological advances, just to name a few.

Stocks have rewarded disciplined investors for decades, through both Democratic and Republican presidencies.

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In USD. Growth of wealth shows the growth of a hypothetical investment of $1 in the securities in the S&P 500 index. S&P data © 2024 S&P Dow Jones Indices LLC. Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

Financial Thoughts

A survey found that 47% of U.S. adults have at least one unused "gift card, voucher, or store credit," adding up to about $23 billion nationwide in unused money (Source: Bankrate, 2023).

In 2022, 650,000 Americans over 80 were still working, up 18% from the previous decade. There will be twice as many 75-year-old and workers in 2030 than in 2020, due in part to the aging baby boomer generation (Source: Census Bureau and Bureau of Labor Statistics, 2023).

Nearly 80% of U.S. parents say they've gone into debt to pay for kids' competitive extracurricular activities, including athletics, music, dance, and cheerleading. About 90% of those who did so say one of their motivations is to provide better financial and educational opportunities, including scholarships for college (Source: Lending Tree, 2023).

A general rule of thumb is that 30% or less of your gross income should go to housing. That includes rent or mortgage payments, along with homeowners association fees and utilities. In 2019, nearly half of all renters paid more than 30% of their income to housing, with about a quarter paying more than half (Source: Joint Center for Housing Studies of Harvard University, 2023). ❍❍❍

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