

Thinking long term

NORCAL Webinars: Do you fear the stock market ? Think long term


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Agenda

- ▶ Should you fear the market today or the next bear market?
- ▶ We will review the data
 - Large stocks, small stocks and fixed income
- ▶ Retirement thoughts and investing today
- ▶ Summary

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Before we start, let's do a poll.....

- ▶ Is your perception of the stock market, over time, a picture of a roller coaster with a number of ups, downs and sharp turns? But in the end, you are back to where you started.
 - Yes
 - No

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My bias toward investing

- ▶ Trained in finance in college 30+ years ago
 - Stocks beat other asset classes
 - US economy prevails over time
 - My thoughts on bear markets

- ▶ This has been my belief or thinking during the bad times.

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Were my beliefs correct over the long term?

- ▶ **YES** - Historical studies show stocks generate a much higher return than bonds or cash over long time periods

- ▶ My beliefs are similar to BetterInvesting

- ▶ Risks: Trying to time the market during bear markets

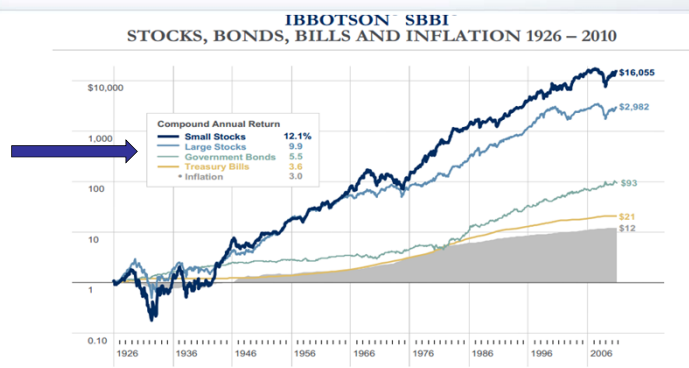
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Stock outperformance over time



Past performance is no guarantee of future results. • An investment cannot be made directly in an index. • Hypothetical value of \$1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. • Source: Created by Raymond James using Ibbotson Presentation Materials • © 2011 Morningstar. All Rights Reserved. 3/1/2011

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What are rolling time periods?

- ▶ *Definition: A period of time determined by the time defined for the calculation. For example, 5-year rolling time periods would mean every year you would gather data on a 5-year basis by adding another year of data and dropping the first year's data.*

- ▶ This process is used to get returns over various time periods.

- ▶ Rolling returns are useful to see how returns look over various time periods.

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Calculating rolling time periods and returns?

▶ **Sample:**

▶ Year	Return
▶ 1	5%
▶ 2	10%
▶ 3	0%
▶ 4	1%
▶ 5	2%
▶ 6	-20%
▶ 7	8%

Annualized return results:

- ▶ First 5-year rolling time period,
 - Years 1-5: $5+10+0+1+2 = 18\%$
 $18\%/5 \text{ years} = 3.6\%$
- ▶ Second 5-year rolling time period,
 - Years 2-6: $10+0+1+2-20 = -7\%$
 $-7\%/5 \text{ years} = -1.4\%$
- ▶ Third 5-year rolling time period,
 - Years 3-7: $0+1+2-20+8 = -9\%$
 $-9\%/5 \text{ years} = -1.8\%$

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What does the historical data tell us?

▶ According to Morningstar-Ibbotson Associates data since 1926, what percentage of the time resulted in a positive return if one was invested 100% in large cap stocks and held for the complete time period:

- ▶ 1-year investment time period 73% of the time
- ▶ 5-year investment time period 86% of the time
- ▶ 10-year investment time period 95% of the time
- ▶ 20-year investment time period 100% of the time


▶ This is an 89-year time period of this analysis

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So what does this teach us?

- ▶ As you lengthen the time invested to 10-years, positive returns jump to 95% from 73%.
- ▶ If you lengthen your investment horizon you increase the probability of making a profit.
- ▶ With stocks you get a positive return 73% of the time even with just one year time period.

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If you can invest in stocks for 20 years?

- ▶ Going back to 1926 with large cap stocks, 100% of the time you generate a positive return.
- ▶ Stocks generate a better long term return versus other assets. Think 401K. Assuming you can accept the risk.
- ▶ Should you fear the stock market?

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Small company stocks some time do even better


- ▶ Longer time periods, of 10-years or greater, small stocks do better than large stocks.
- ▶ For example, using 10-year time periods, small stocks were positive 98% of the time, large cap stocks 95%.
- ▶ Not true if invest horizon is less than 10 years, due to the higher volatility of small stocks.
- ▶ Small company stocks, over a 20 year time are positive 100% of the time.

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Are there any questions?


- ▶ Let's spend the next few minutes trying to answer any questions.....
 - Time for a Poll.....
 - If I add fixed income to a portfolio, does it increase the number of times that over a 5-year time period investors generate a positive return?
 - Yes
 - No

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What happens when you add bonds?

- ▶ More consistency in returns. Higher percentage of winning time periods. Versus only stocks or only bonds.
- ▶ Adding some bonds reduces portfolio volatility.
- ▶ I want to add them to my long term investment program – right?
 - Maybe – returns for bonds are lower than stocks.
 - With the 10-year treasury rates at 2.5% after a 30-year bull market in bonds, what now.


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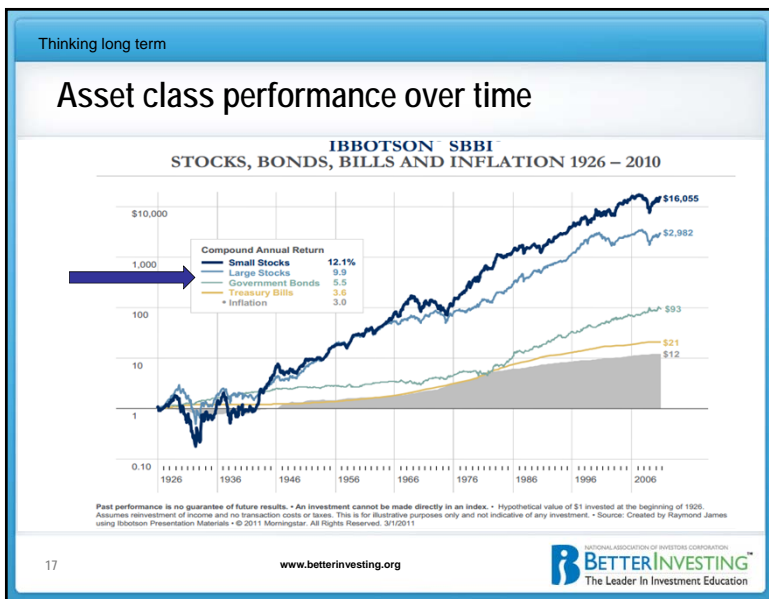
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The historical data

Portfolio Allocation	Rolling time periods			
	1-Year	5-Years	10-Years	20-Years
100% Large Stocks	73%	86%	95%	100%
90% stocks/10% bonds	74%	91%	99%	100%
70% stocks/30% bonds	76%	94%	100%	100%
50% stocks/50% bonds	79%	94%	100%	100%
30% stocks/70% bonds	81%	100%	100%	100%
10% stocks/90% bonds	78%	96%	100%	100%
100% Long term government bonds	73%	93%	99%	100%
Number of rolling time periods	89	85	80	70

Source: Dow Theory Forecasts/Morningstar-Ibbotson Associates - Ending 2015

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Some thoughts about retirement

- ▶ Retirement time frame.
- ▶ Going to all cash or all bonds in a retirement plan is probably a mistake in the long run.
- ▶ Retirees, should consider having a more conservative asset allocation.
- ▶ You should have some stock exposure regardless of age.
- ▶ Do you need to grow your retirement pile to meet your needs? If so, you will need to use stocks.

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What about now – 6 years into a bull market?

- ▶ Depending on your time horizon, if 10 years or longer, not much in my opinion.
- ▶ If you have a shorter than 10-year time horizon, it might make sense to be a bit more conservative from an asset allocation. Why? 86% of the 5-year time periods were positive, but there is a higher probability you could be closer to one of those negative time periods.
- ▶ The next bear market might not come for years, but it also could start next week.

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Summary

- ▶ *As you lengthen your investment time horizon, having stocks should increase your percentage of winning time periods.*
- ▶ *Stocks should get you a higher return versus other asset classes in the long run, thus do not fear the stock market.*
- ▶ *Questions?*

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Thank you for joining us tonight.....Questions?

Upcoming Chapter Events

- *NORCAL Webinar: Q4-15.*
 - *Sacramento Area: August 29, A Special Wealth Building Event, 8 am -12 pm, Sun City Roseville*
 - *San Francisco Bay Area: October 24 – Education Half Day, 9 am – 12 pm – Mills College, Oakland*
 - *Checkout each Chapter's Model Club meetings*
 - *BINC - BI National Convention – Virginia – 2016.*
- Contact your local Chapter representative for more information.*

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