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

Presented by:

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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

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

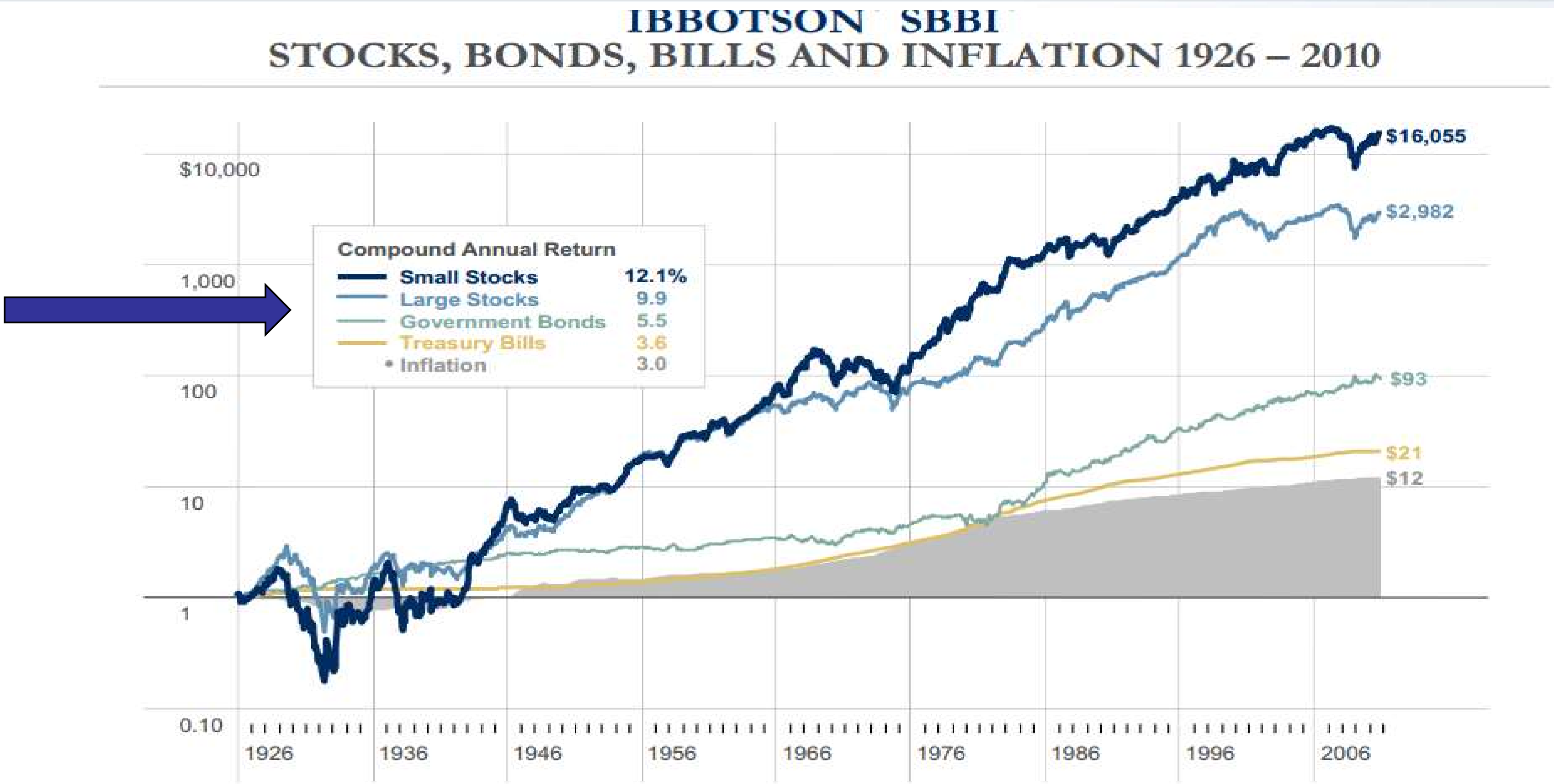
My bias toward investing

- 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.

Were my beliefs correct over the long term?

- **<u>YES</u>** - 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

Stock outperformance over time



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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.

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 years = 3.6%
- *Second 5-year rolling time period,*
  - *Years 2-6: 10+0+1+2-20 = -7%*

    -7%/5 years = -1.4%
- *Third 5-year rolling time period,*
  - *Years 3-7: 0+1+2-20+8 = -9%*

    -9%/5 years = -1.8%

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*

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.

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?

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.

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

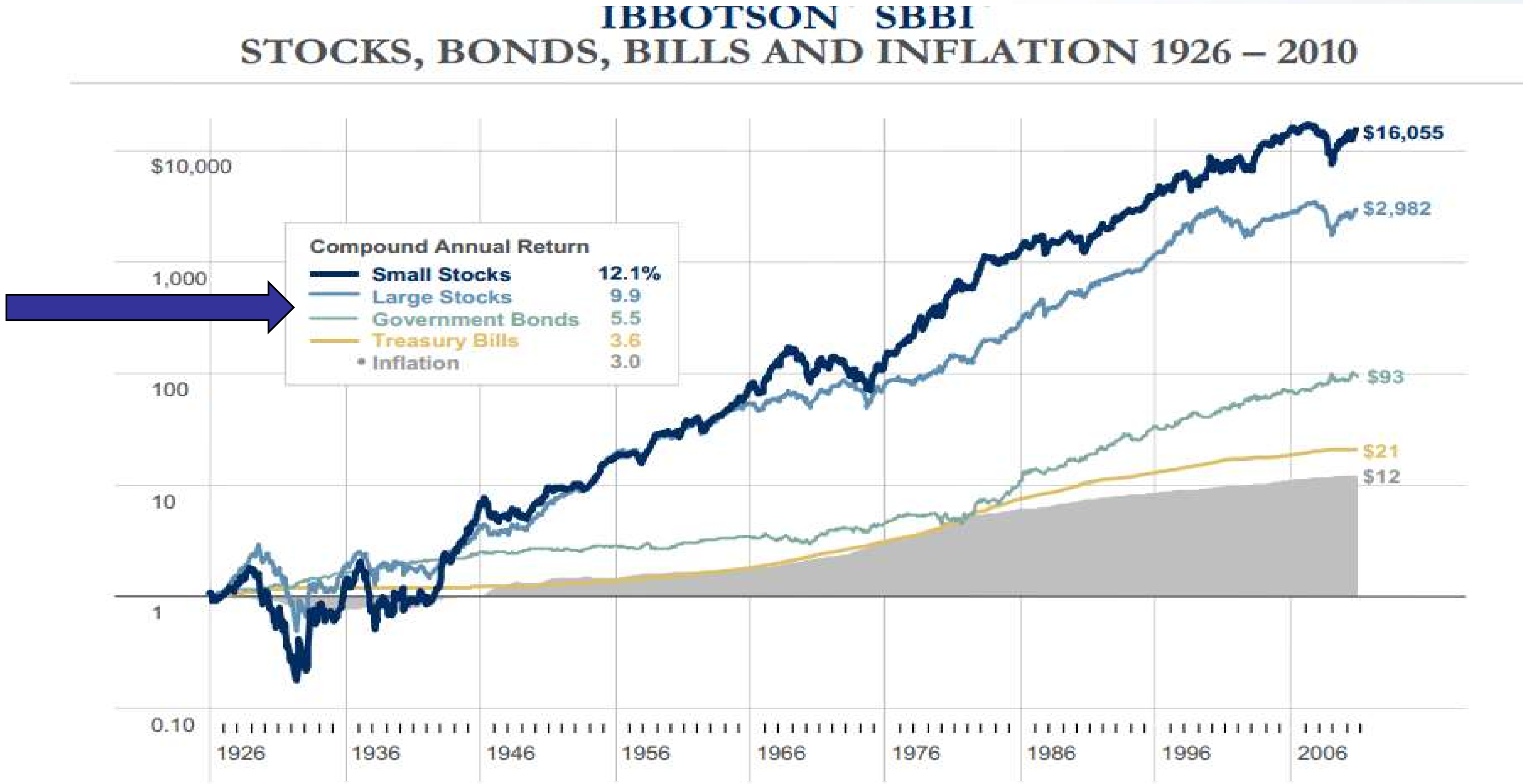
What happens when you add bonds?

- 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.

The historical data

Winning percentages since 1926				
		Rolling time periods		
Portfolio Allocation	**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				

Asset class performance over time



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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.

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.

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?*

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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