PAST PERFORMANCE IS NO GUARANTEE, BUT IT'S A GOOD PLACE TO START

A recent Wall St. Journal poll surveyed stock market investors about their reactions to losses brought on by COVID-19. An overwhelming majority of those interviewed vowed not to liquidate their holdings, proclaiming with confidence the market "always bounces back" and" I'm in it for the long term".

The phrase "I'm in it for the long term" is bandied about often these days, and with good reason. While results vary wildly in the short term, stocks have consistently delivered positive returns over extended time intervals. For any one year span, the odds are 50% that stocks will go down. As the holding period increases, however, the range of returns compresses and probability of losing money decreases.

To demonstrate this phenomenon, I asked James Picerno, the author of *Quantitative Investment Portfolio Analytics,* to compile the rolling returns of the S&P 500 Index since inception. In order to fully appreciate the results, it is necessary to understand the concept of rolling returns.

Account statements typically show a single time frame with set ending date, such as Quarter-To-Date or Year-To-Date. Rolling returns look at multiple time frames, with every frame beginning anew each month over the interim selected. For example, over a 6 month time span, with period length of 3 months, the same investment can generate 4 different outcomes:

Jan	Feb	March				**15%** return
	Feb	March	April			**-3% return**
		March	April	May		**7%** return
			April	May	June	**1%** return

A Year-To-Date statement from June would post a return of slightly above 16%. Yet the difference between best (15%) and worst (3%) roll is substantial, especially since they occurred consecutively. This discrepancy highlights the risk of focusing on any one period as justification for investment decisions.

With that in mind, let's look at the rolling returns for the S&P 500.

	10 years	20 years	30 years	40 years	50 years
0%	-9.1%	-3.5%	-1.9%	-0.4%	-0.4%
25%	1.9%	2.5%	2.8%	2.4%	2.4%
50%	**5.8%**	**5.5%**	**6.0%**	**5.2%**	**4.4%**
75%	10.4%	8.5%	7.5%	6.9%	6.6%
100%	16.6%	14.2%	10.4%	9.0%	9.5%

50% represents the median: the number separating the higher half and the lower half of range of returns. The numbers in the 25-75% distribution define outcomes that happen frequently, while the 0% and 100% figures depict outliers that rarely occur. For each of the five periods, the results in the 25-75% ranges are positive. This is not mere happenstance. Over the long term the stock market reflects the health of our economy, which in turn reflects the health of our country. And though we suffer bumps and bruises along the way, our country is resilient and determined and always bounces back.