Client's Corner

Two Years, Sixteen Days: Once Again, the Tragedy Is Complete

"And every time again and again
I make my lament against destruction."
—"People" by Yevgeny Yevtushenko

As they always do in difficult times, superior companies hunkered down and focused on what they're good at: preserving their owners' capital to the greatest extent possible, seeking opportunity in weaker companies' distress, merging strategically and above all *innovating*.

ON JANUARY 3, 2022—AFTER AN EPIC 13-YEAR, SEVENFOLD rise from its Global Financial Crisis low on March 9, 2009—the Standard & Poor's 500-Stock Index topped out, at a closing level of 4796.56.

On January 19 of this year—that is, two years and 16 calendar days later—the Index surmounted that level and closed in new high ground at 4839.81.

In between those two dates, one observed an age-old tragedy being reenacted. With the market making new highs, that tragedy is once again complete.

It is an intensely human tragedy, in that it is not directly related to—much less caused by—the equity market. Specifically, a 25% decline in the S&P 500 such as that which occurred between January 3 and October 12, 2022 is not by any definition a tragedy. It's actually fairly routine, having taken place on average about every five years or so since the end of WWII.

Thus the tragedy is implicit not in the market decline ***but in the way many people reacted—and have always reacted—to it.*** Simply stated, the tragedy is selling out of one's core long-term equity investments in fear, only to see them rise to new heights, as indeed they have always done.

The market went down in 2022 for a number of very good and compelling reasons, of which the 24-hour financial "news" services never ceased to remind us, and in the most alarmist terms. The plain fact is that ***every*** significant equity market decline has been driven by some combination of seriously negative economic, financial, political and/or geopolitical phenomena. As will, in all probability, every future decline of consequence.

In the most recent instance, we experienced a firestorm of inflation, on a scale not seen in 40 years. There came in response the fastest, sharpest interest rate spike in the 110-year history of the Federal Reserve. Investors were confronted by the very real possibility (if not the probability) that the draconian Fed tightening might drive the economy into recession. Corporate earnings were universally forecast to decline—and did, however briefly. War raged in Ukraine.

Yet as they always do in difficult times, superior companies hunkered down and focused on what they're good at: preserving their owners' capital to the greatest extent possible, seeking opportunity in weaker companies' distress, merging strategically and above all ***innovating.*** Indeed, even as the above-cited apocalypses du jour (and several more) have been bedeviling "the stock market," one of mankind's potentially great technological breakthroughs—in artificial intelligence—has begun to manifest in the share prices of a number of leading technology companies.

Meanwhile, there has at least so far been no recession; instead the economy has continued to grow. Job creation has remained quite brisk, with about four million jobs added just since the market low of October 2022. Inflation has grudgingly declined, though to nowhere near pre-pandemic price levels. Despite those higher prices, retail sales have continued fairly strong. Yet the consumer's balance sheet, even with credit card delinquencies rising, remains relatively liquid. And with inflation cooling, it becomes increasingly likely that we're very near (if not past) the top of the interest rate cycle; the current journalistic conversation centers around when and by how much the Fed may begin reducing interest rates.

In sum, the serial crises that sent the equity market down 25% in 10 months seem largely to have passed. And yet again—driven by the two things it loves most: rising earnings and imminently declining interest rates—the equity market has been making new highs. That's what it does. Or perhaps we must confine ourselves to saying: that's what it always has done.

"The S&P 500 has hit 1,176 new highs since its 1957 inception," Invesco Global Market Strategist Brian Levitt wrote on January 19. (There have been several more since then.) "That's the equivalent of a new high every fortnight, or 14.3 days. History suggests that investors should expect the market to ascend to many new highs

over their lifetimes, ***even if the path isn't always a straight one."*** (Emphasis cheerfully added.)

Of course, the key word in Mr. Levitt's finding—as in all such—is ***average.*** The average new high may have occurred every couple of weeks, lo these nearly seven decades past. But as we've just finished noting, the market went 106 weeks between the new highs of January 2022 and January 2024. In its own way, that demonstrates my point.

An investor may choose to focus, in mid-crisis, on the sometimes steep and often dark valleys between the new highs. That's when the tragedy we're discussing is most likely to strike. Alternatively—and with the constant encouragement of your financial advisor—you may elect to remain focused on the long parade of new highs traced out over your entire life by the values (and dividends) of superior companies, as they have prospered through time. The issue is never the facts at any given moment; it's one's depth of focus. As Winston Churchill famously observed, "The farther backward you can look, the farther forward you can see."

Would it then be piling on if I were to point out that since March 1957—when the S&P 90 became the S&P 500, and began putting up Mr. Levitt's nearly 1,200 new highs—$1,000 invested in it, and left to compound, grew to well over $700,000 today? Or ought some combination of current crises ever be permitted to take precedence over this, and call forth the ancient cry of the capitulating investor: **"This time is different"?**

That may be the essential choice in long-term equity investing. And it is always your choice to make.

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Sources: Equity prices: Standard & Poor's, Yahoo Finance. Job creation: US Bureau of Labor Statistics. Return calculation: DQYDJ.com, based on price data from the Nobel laureate Robert Shiller.