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Why Stocks Aren't Risky

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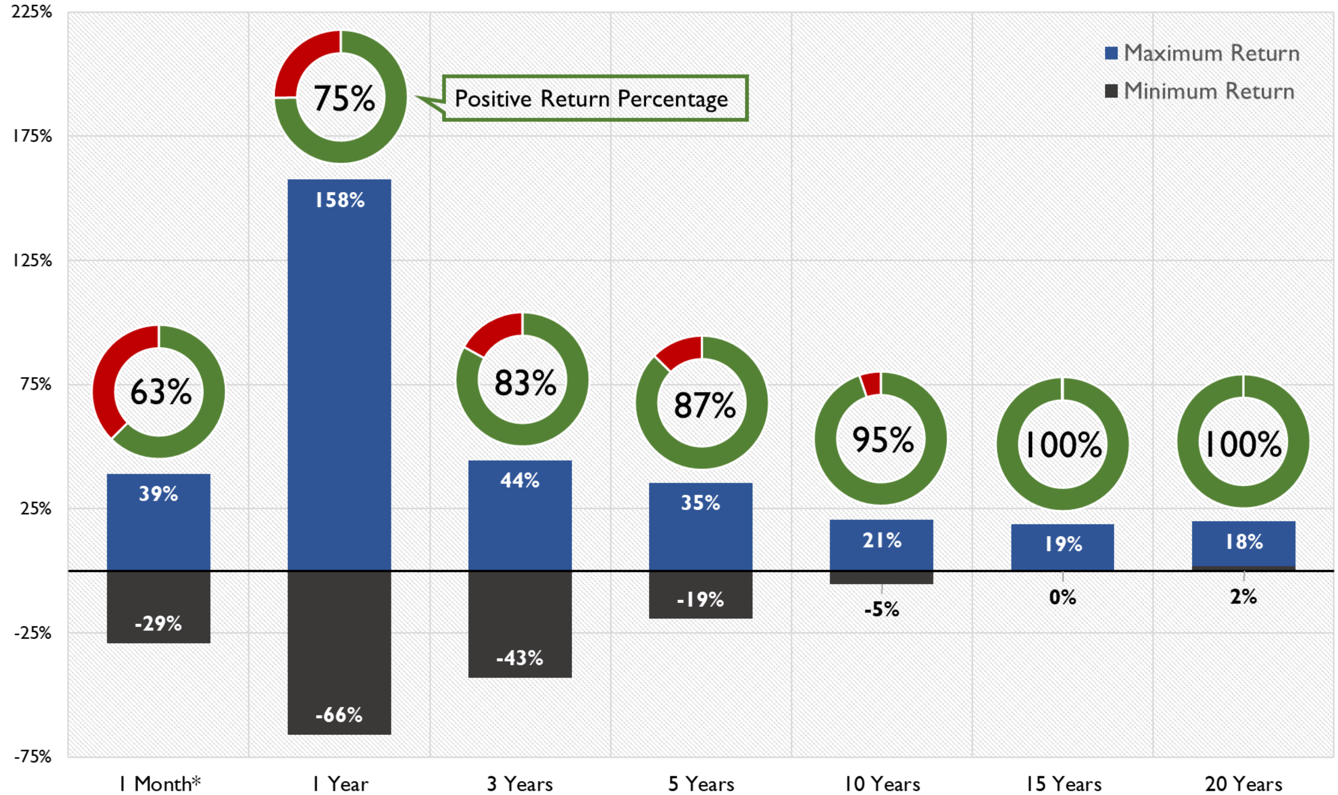
While stocks deliver unpredictable returns in the short-run, stocks are the least risky choice to build wealth over longer time periods. As the investment horizon increases, loss of purchasing power becomes the main risk. On the other hand, the chances for positive returns from investing in stocks approaches near certainty. Investing in stocks generates a positive return 63% of the time for any calendar month, 75% of the time for any 12-month period, and a greater than 95% chance for any 10-year period.

US STOCK MARKET ANNUALIZED ROLLING PERIOD RETURNS (Jun 1926 – Dec 2017)



* 1 Month returns are not annualized. Figures include dividends and are compounded by geometrically linking monthly returns. Source: Fama-French Market Return Series, June 1, 1926 – December 31, 2017.

Most of the extreme minimum and maximum returns in the above chart occurred during the Depression Era, when the world was a much different place. One thing that hasn't changed, however, is the average stock market returns over these rolling periods. Regardless of the period examined, each of the rolling time periods return on average between 10% to 12% annually. This is because periods of low returns are followed by periods of high returns, and vice-versa. Stock market returns regress to the mean over time. Simply staying invested improves results with every year invested, regardless of the conditions.

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From the Behavioral Viewpoint

What is going on?

1. We are easily **fooled by randomness** and believe that there should be straight-forward explanations for stock market movements. The reality is that over shorter time horizons, markets are largely driven by a complex set of random short-term events and behavioral reactions.

2. **Fallacy of control** is a bias where we want to believe that we can comprehend the markets and make smart investment decisions. Attempting to navigate short-term market conditions is incredibly difficult and can be costly.

3. We are prone to **recency bias**, where recent events carry more weight than they deserve. Recent events are also likely to be more extreme in either direction and can easily lead to overreaction.

What can we do?

1. Develop a plan that separates short-term and long-term investments. Fund long-term investments early and often and withdraw as late as possible.

2. Build a strategy-diverse equity portfolio that can be resilient in a variety of market conditions to help you stay fully invested for the long run.

3. Work with a skilled advisor who can help you avoid detrimental short-term decisions that can impact your long-term success.

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