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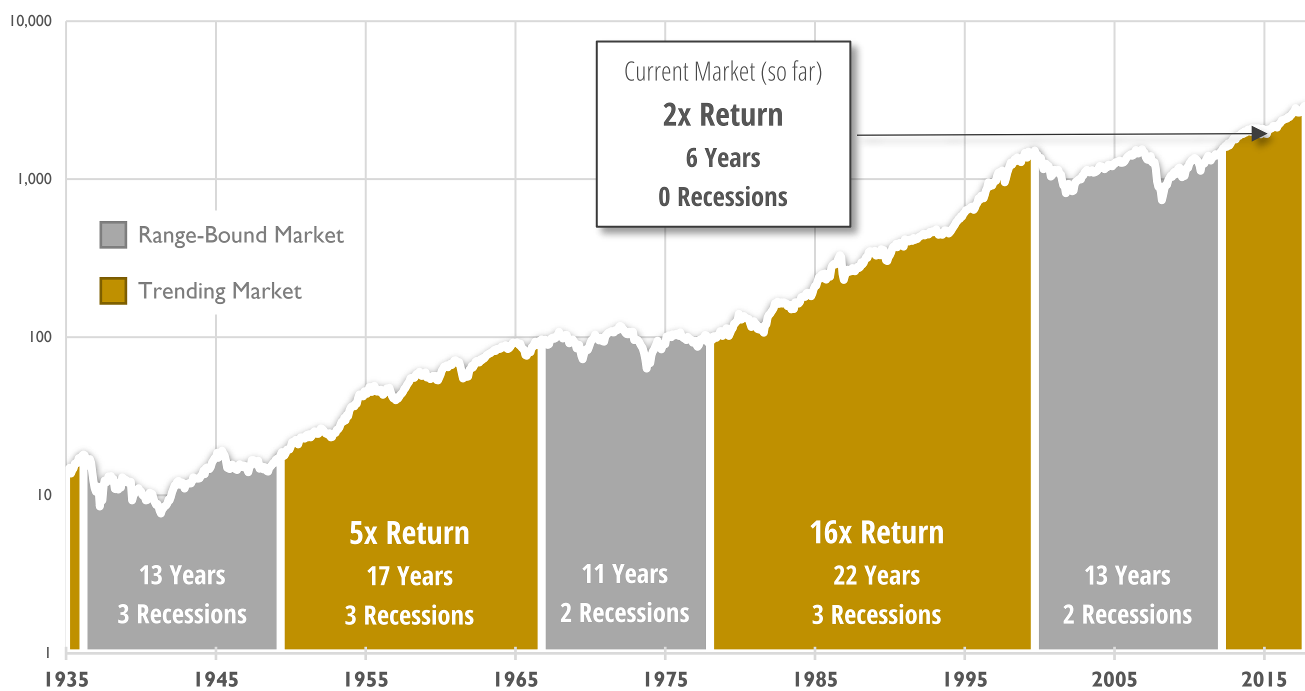
How Long Do Market Expansions Last?

Volume 24 | October 2018

There is mounting concern about geopolitics, interest rates, the economy and the length of the current market expansion. A long-term view can help to put things in perspective and perhaps relieve some anxiety. Extended periods of market appreciation, even with intermittent economic recessions, are not that unusual. The chart below highlights the incredible sustained appreciation of the Post-War Boom and the Post-70's Era. In this context, the current trending market may just be getting started.

S&P 500 PRICE INDEX (Log Scale, 12/31/1935 – 9/30/2018)



Source: S&P Dow Jones Indices LLC.

The chart shows the S&P 500 Index starting in the middle of the Great Depression and illustrates patterns of range-bound and trending markets. In the long-run, the market tends to go up, take a breather and then go up again. Over this period, there were 13 recessions, which translates to roughly one every six years on average. Interestingly, although the stock market declined with each of the recessions, the trending markets overpowered the temporary setbacks to deliver healthy returns over time.

While somewhat oversimplified, protracted wars, severe external shocks and disastrous policy decisions seem to be the major detractors from steady long-term growth and even those are handled with time. These events are largely unpredictable in advance and trying to anticipate and manage around them can be costly. There is little value in trying to determine where the market is headed in the short-run. The long-term trend is where all the rewards can be found. Don't miss out on the opportunity to accumulate wealth. For long-term growth, the best course of action is to stick to your plan and stay fully invested.

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From the Behavioral Viewpoint

What is going on?

1. We are easily **fooled by randomness** and have a hard time accepting that even major geopolitical and economic events are largely random. The pundits claim that they can read the tea leaves and predict upcoming events and their consequences, making us feel like we are foolish if we can't.
2. Because of **fallacy of control**, we want to believe that we can somehow predict the future and manage the situation proactively. In reality, there are so many uncontrollable variables that we have almost no chance.
3. The constant bombardment of media, delivered 24 hours a day, creates an **availability bias** where we give readily available information more weight than it deserves. We develop a short-term perspective and conclude that daily news and events are relevant, and we should act upon every twist and turn.

What can we do?

1. Focus on long-term data and be skeptical of short-term proclamations and predictions. Learn to accept uncertainty and the inevitable ups and downs as normal, not as indicators of missed signals or impending doom.
2. Have a needs-based plan that keeps you invested in long-term growth. Focus on your plan and the things you can control rather than the economy and geopolitical gyrations.
3. Use a disciplined process to construct a strategy-diverse growth portfolio that is designed to be resilient in a variety of market conditions.
4. Work with an experienced financial advisor who can provide you with valuable perspective, guidance and behavioral coaching.

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