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Invest for The Decade, Not the Year

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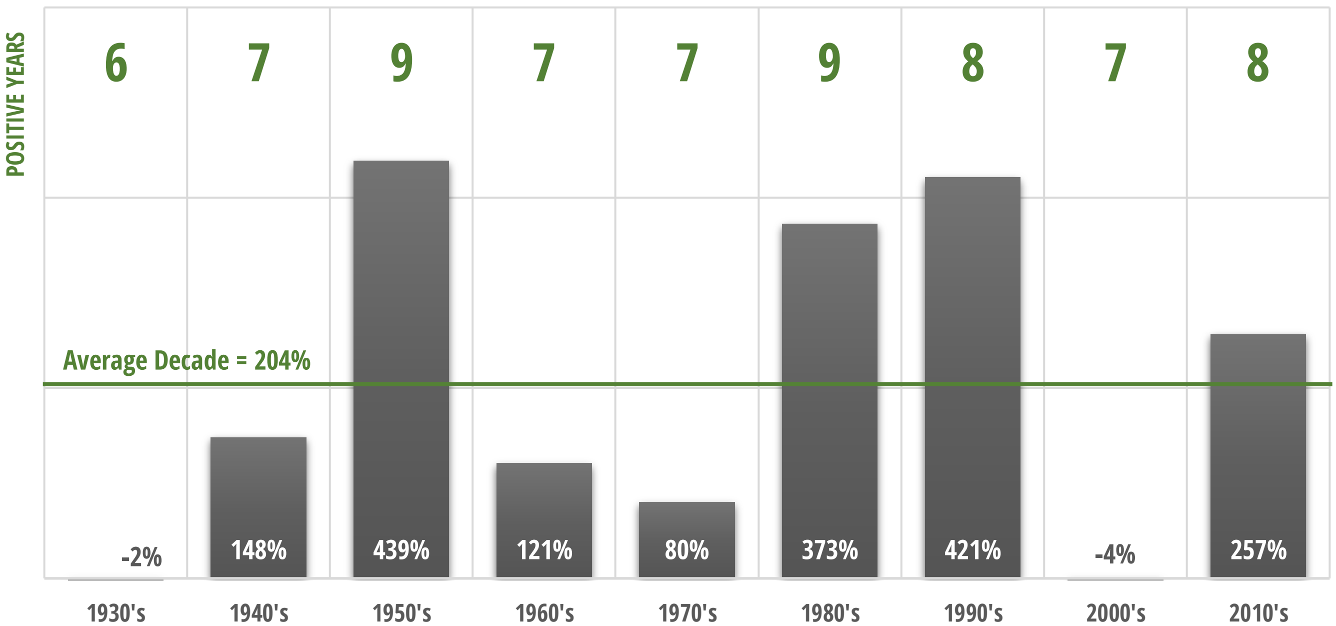
There are floods of COVID-19 market commentaries on how the virus and government responses will impact the economy and the market. For long-term investors, it's hard to know what to make of them all. Taking a deep breath and stepping back by reframing with a longer term perspective can help investors avoid costly mistakes. Every decade has its challenges, but even with a myriad of setbacks, the average decade-return over the period below was 204%, so tune out the noise and stick to your plan.

COMPOUND UNANNUALIZED EQUITY RETURNS BY DECADE (1930 - 2019)



Source: Fama and French Three Factor Market Return Series

The last decade closed with equities appreciating 257% and advancing in eight of 10 years in the 2010's. For some historical perspective on the subject, we look at the past nine decades. Remarkably, the 2010's represent the most average decade of any over the 90-years. Investors tripled their money (204% unannualized return) and experienced 7.5 positive return years in an average decade for the period.

Decade returns range from a low of -4% to a high of 439%. Negative returns are rare, with only two negative return decades. The Depression-era 1930s and the 2000s with Tech Bubble deflation and the Financial Crisis combined in one ten-year period. After the market declined in the 1930's, it took another six decades to experience another negative decade. The 2010's was the fourth best investment return decade following the post-war era 50's, the Dotcom 90's, and the Reagan-era 80's.

For most investors, there is little need to try to predict the future based on the constant flow of information and opinion regarding the recent unexpected events and current investing landscape. Successful investors have a long-term perspective and dedicate a portion of their assets to growth and invest based on long-term return expectations. When this perspective is taken, the largely random and unpredictable stream of yearly events, headlines and subsequent results lose their significance. While there are always plenty of things to worry about, often the best course of action is to stay invested and stick to your plan.

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From the Behavioral Viewpoint

What is going on?

1. Calendar years, annual statements and income tax filing drive investors to **anchor** on one-year returns.
2. Media **availability and information bias** flood investors with an overload of new year information and opinion that stimulates our emotional need to take some action.
3. Patterns, stories and shortcuts help us understand what is going on around us. This **Narrative Fallacy** creates a natural overemphasis on narrative over data that often results in faulty analysis and poor investment decisions.
4. We are easily **Fooled by Randomness** and have a hard time accepting randomness. We want to believe that there is some way to forecast and navigate the recent unexpected events and largely unpredictable market gyrations.

What can we do?

1. Reframe your investment time horizon, think and plan in terms of decades rather than years. Give resources allocated to growth the time necessary to mature.
2. Use needs-based planning to separate short and long-term investments and to insulate your emotions from short-term noise. Follow a well-developed investment process that delivers critical discipline.
3. Work with an experienced behavioral financial advisor. They can provide valuable perspective and coaching to help stay on track and remain focused on long-term goals.

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Behavioral Viewpoints features new topics each month which are intended to help advisors and investors gain a deeper understanding of how behavior shapes the investing landscape.

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