"The optimist sees the donut, the pessimist sees the hole."

- Oscar Wilde

The first quarter of 2022 brought about the first correction in the stock market, defined as a decline of 10% or more, since the onset of the pandemic in March 2020. Market corrections are never welcome, but as we review in this quarter's *Investment Perspectives*, they are more common than most realize and ultimately, such periodic volatility is the price to pay for long-term wealth accumulation through equity investing.

Crises are more common than you think

Several factors, including the Russian invasion of Ukraine, have driven this recent market decline. While human toll has been enormous, it is important to put current events into an historical context. Geopolitical events, including economic, political, military, and natural disasters, occur with regularity and receive wide media coverage. Some are shorter in duration, some longer. Over the last 50 years, these episodes have averaged about one per year. Listed below are some more notable events and the return of the S&P 500 in the following 12 months.

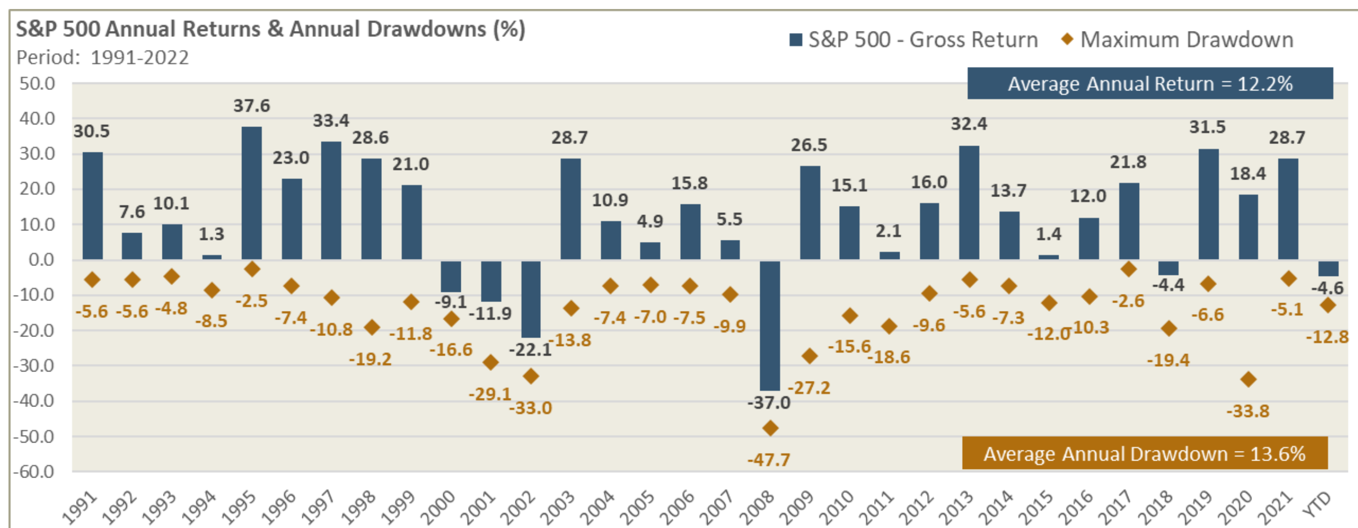
Event	Date	S&P 500 + 1-year %	Event	Date	S&P 500 + 1-year %
Watergate	6/19/1972	-3%	London Bombings	7/7/2005	+9%
Iran Hostage Crisis	11/15/1979	+24%	Hurricane Katrina	8/29/2005	+10%
Iran-Contra	11/3/1986	+3%	Lehman Bankruptcy	9/15/2008	-9%
Desert Storm – 1st Gulf War	1/17/1991	+37%	Hurricane Sandy	10/29/2012	+27%
WTC Bombing	2/26/1993	+8%	Boston Marathon Bombing	4/15/2013	+17%
Oklahoma City Bombing	4/19/1995	+30%	Russia – Crimea (Ukraine)	2/27/2014	+17%
Y2K	1/1/2000	-9%	Brexit	6/24/2016	+18%
Bush-Gore Election Results	11/7/2000	-21%	Trump Election	11/8/2016	+24%
September 11th	9/11/2001	-16%	US – China Trade War	1/22/2018	-3%
SARS	2/11/2003	+40%	Coronavirus Pandemic	3/11/2020	+46%
2nd Gulf War	3/20/2003	+29%	Russia - Ukraine	2/24/2022	TDB

Initial reaction to such events and speculation about the severity and duration can produce severe market volatility. And yet, following many of these events the market was higher one-year later (the above table averages +14%). While hindsight may help to downplay the long-term impact of many of these crises, they were anxiety-inducing time periods for investors in stocks. No doubt we will continue to have these events in the future.

No Pain. No Gain.

Market corrections and bear markets occur in the normal course of investing in equities, and we believe it is impossible to time or predict their occurrence. If we better understand the frequency and magnitude of these sell-offs, we become more capable in managing through such challenging periods. The aerobic workout enthusiast, Jane Fonda, popularized the phrase "No pain, no gain" in the 1980's. After reviewing the last 30 years of market drawdowns (another word for correction), no pain, no gain seems an appropriate description of annual market volatility.

The chart below shows the annual return of the S&P 500 (blue bar) and the maximum drawdown (orange marker). The annual drawdown is measured as the peak-to-trough decline. Of note, in 2008 with the beginning of the financial crisis the market was down 37% for the year with the maximum drawdown of nearly 48%. More recently, in the pandemic year of 2020 the market returned 18% despite a drawdown of 34%.



Source: Factset

The average annual decline over the past 30 years, from the peak in that year is 13.6% despite the fact that over this period, the average annual return of the S&P is 12.2%. Unless we stay invested through the decline, or time the bottom correctly, a highly unlikely move, we need to stay invested through the entire market cycle to experience the gain in investment portfolio.

The alternative to this "no pain, no gain" investment strategy is to invest in less volatile fixed income securities, such as bonds, that produce significantly lower returns over time. Over the last 50 years we have experienced seven recessions, eight bear markets and numerous corrections. Despite these economic and market events, $10,000 invested in the stock market has generated significantly more than investing in US bonds or Treasury Bills, and the rate of inflation. The table below highlights the opportunity cost of avoiding the pain.

	Cumulative Value of $10,000 Investment (Ending 12/31/2021)				
Asset/Index	**Last 5 years**	**Last 10 years**	**Last 20 years**	**Last 30 years**	**Last 40 years**
US T-Bills	$10,615	$10,698	$13,071	$21,088	$47,136
US Bonds	$11,916	$13,307	$23,335	$46,910	$175,325
CPI	$11,198	$12,321	$14,892	$19,505	$31,086
S&P 500	**$23,341**	**$46,257**	**$61,685**	**$208,215**	**$1,052,703**

Source: Factset

Time in the market is more important than timing the market

The table below accumulates 50 years of S&P 500 returns broken out by different time periods. The key takeaway from this chart is that staying invested over the long term reduces the chance and magnitude of loss.

Time Period	Number of Periods	# Positive	# Negative	% Positive	% Negative	Worst Return %	Best Return %	Average Return %
1 year	197	158	39	**80.2%**	**19.8%**	-38.8%	60.9%	**12.4%**
3 year rolling	189	165	24	**87.3%**	**12.7%**	-16.1%	32.8%	**11.4%**
5 year rolling	181	161	20	**89.0%**	**11.0%**	-4.8%	28.6%	**11.4%**
10 year rolling	161	153	8	**95.0%**	**5.0%**	-3.0%	19.4%	**11.4%**
15 year rolling	141	141	0	**100%**	**0.0%**	4.0%	19.2%	**11.3%**
20 year rolling	121	121	0	**100%**	**0.0%**	4.8%	18.2%	**11.2%**

Rolling Quarterly Periods from 1/1/1972 through 12/31/2021 Source: Factset

All returns over 1 year are annualized

As the table shows, using 50 years worth of data, over all the one year rolling periods, defined by four consecutive quarters, returns were positive 80% of the time and negative 20% of the time. This highly favorable outcome came with significant volatility, since the best one-year period was a +61% return, while the worst one-year period was -39%. Staying invested in the market for five years not only increased the likelihood of a positive return to 89% of the time, but also dampened the magnitude of those losing periods to -5%. Over 10 years, an investor had positive returns 95% of the time. And lastly, there has never been a negative return over any rolling 15-year period. (Interestingly, over all time periods the average annual return is 11-12%.)

A common refrain is that the stock market is a casino. If it is a casino, the odds are clearly in your favor over longer periods of time. As always, past performance is no indication of future results. However, history tells us that an investor wins 100% of the time with a 15-year time horizon.

Perspective and a long-term focus in the face of uncertainty

When confronted with global or economic uncertainty, it can be difficult to imagine what the next year or even the next month will bring, and that is scary, especially when it coincides with a weak stock market. However, it is important to maintain perspective and focus on the long term to achieve your investment goals. We hope this piece will provide some comfort and guidance for you not only during this current unsettled period, but also during future ones as well.