

“The stock market is a device to transfer money from the impatient to the patient.”

- Warren Buffett

In our last *Investment Perspectives* we discussed how market corrections are more common than most realize, and while never welcome, such periodic volatility is the price to pay for long-term wealth accumulation through equity investing. The last two years serve as the latest example of our “no pain, no gain” mantra.

It is an opportune time to remind investors that looking at the value of a portfolio every day may not be in the best interest of your mental well-being. History tells us that on any given day the stock market is positive 52% of the time and negative 48% of the time. So, every day is essentially a coin-flip. However, unlike the flipping of coins, the odds begin to shift in your favor the longer the patient investor stays invested in the market.

It’s also important to avoid fixating on the “highwater” mark of a portfolio’s value. While it may be dispiriting to look at today’s value compared to the beginning of 2022, comparing today’s value to the beginning of 2020 offers a longer-term and perhaps more measured view of portfolio value.

Two Bear Markets in Two Years

Consider that in just over two years, investors in the S&P 500 have endured two bear markets, defined as a decline of 20% or more. Since the last 28 months are fresh in every investor’s mind, we will not list all the economic, geopolitical, and societal events that brought about such market volatility. Instead, we take a step back and for illustrative purposes, ignore recent volatility. If we simply look at cumulative and annualized returns by asset class, we might be surprised to realize that: 1) equity returns have been quite good since the end of 2019, and 2) a heavy weighting to U.S. equities has served investors well.

As shown in the table below, starting pre-pandemic on January 1, 2020 through June 30, 2022, the S&P 500 has an annualized return of 8.3% and a cumulative return of 22%. Remember, this period includes two bear markets. These returns far exceed the return in US bonds, Treasury bills, international stocks, and the U.S. CPI. Only commodities have produced a higher rate of return during this 30-month period, although it is worth noting that over the last 10 years commodities have produced a cumulative negative return of 17% compared to a gain in stocks of 238%.

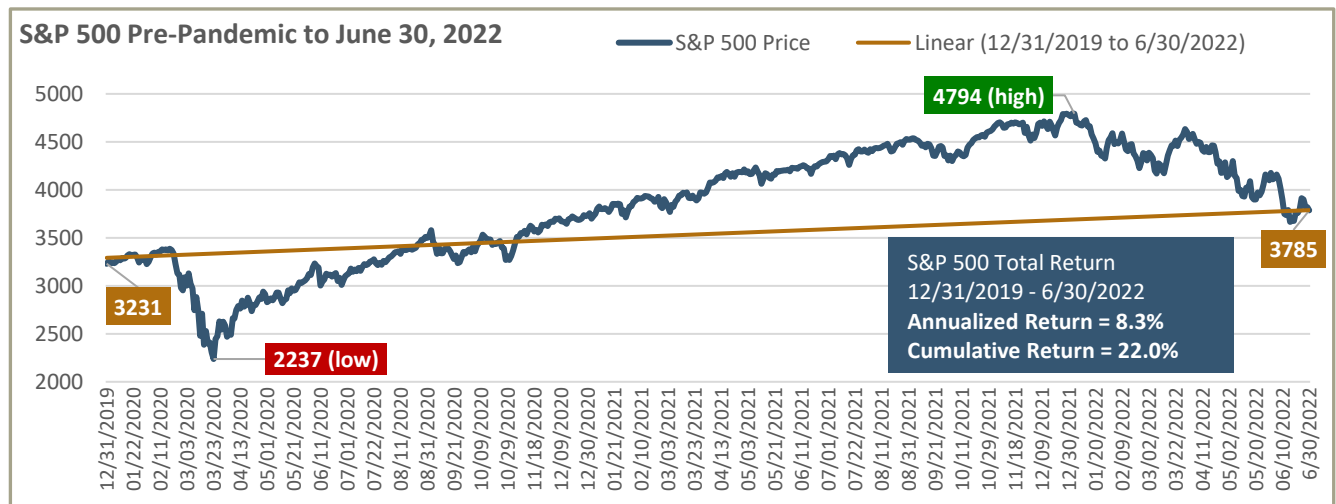
Investment Returns 12/31/2019 through 6/30/2022

Asset Class/Index	Annualized Return *	Cumulative Return *
S&P 500	8.3%	22.0%
Bloomberg US Bond Aggregate	-2.1%	-5.1%
US Treasury Bills	0.3%	0.8%
MSCI AC World ex-US	-1.1%	-2.7%
CPI (through May 2022)	4.3%	11.0%
S&P GSCI Commodities	16.1%	45.8%

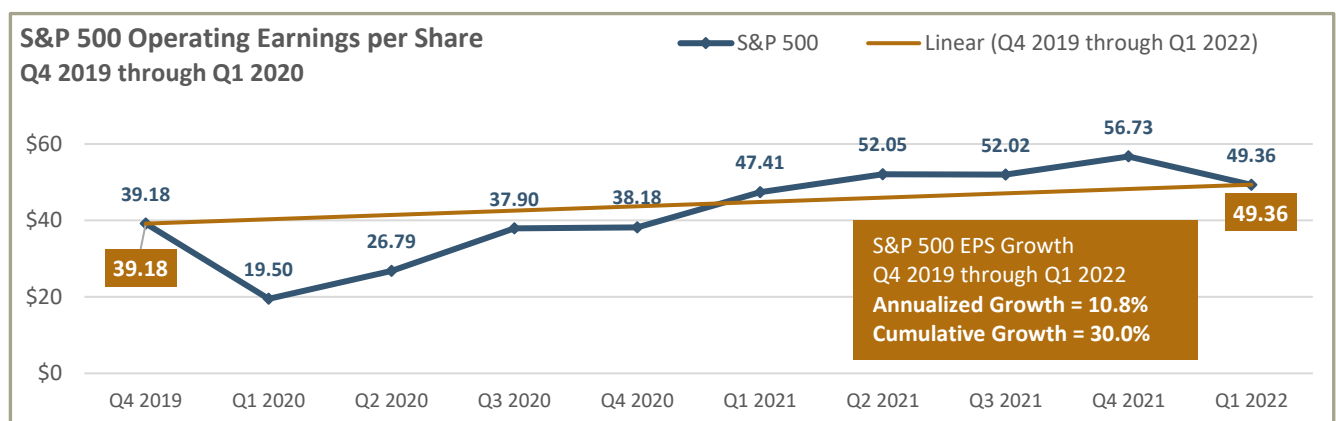
* Total return includes dividend and interest payments

Over Time, Stocks Follow Earnings

As you have often heard us say and write, over time stock prices follow earnings per share (“EPS”). Since the arrival of the pandemic, we have observed a low in the S&P 500 of 2,237 and a high of 4,794, an astonishing 114% difference during this 30-month period. However, as shown below, a smoothed line from January 1, 2020 through June 30, 2022 produces an increase in the S&P 500, inclusive of dividends, of 22% on a cumulative basis, as shown below and detailed above in the previous table.



Over this same period, the S&P 500’s aggregate operating EPS, which excludes non-recurring items, shares a comparable trajectory to that of the price of the S&P 500. A smoothing of the line for S&P 500 EPS over this same 30-month period also yields a similar return (30% cumulative) to that of the S&P 500. Again underscoring that earnings are a – if not the – key determinant to longer-term price action.



At Aureus, we seek to construct a portfolio of high-quality, growing companies that can sustainably compound earnings per share at growth rates greater than those of the broader stock market. We do so with the knowledge that stocks follow earnings, over time.