On Course Financial Planning
Facing the Future with Optimism and Courage
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A Perspective on Drawdowns

A drawdown is a decline in a market index from its most recent high, noted as a percentage. The S&P 500 hit its last all-time high of 6,144 on February 19th. As of March 10th, it is down about 8% from its all-time high, giving the financial media all the motivation it needs to generate optimism destroying headlines – even though year-to-date the decline in the index is just over 4%. So, this might be a good time to take a trip down memory lane.

It was 16 years ago this month, on March 9, 2009, that the stock market reached its lowest point during the financial crisis. On that day, the S&P 500 Index closed at 677 -- a 57% drawdown from the all-time high that it reached 17 months previously. Then, for no apparent reason, the S&P 500 rose 6.4% on March 10th, something that no one was predicting on March 9th. The sudden reversal marked the beginning of a stock market rebound of historic proportions. On March 10, 2025, the S&P 500 Index stood at 5,615 – reflecting a 14.1% annualized rate of return, not including dividends, since March 9,2009. This exceptional performance occurred despite intra-year drawdowns in the S&P 500 of 16% in 2010, 19% in 2011, 12% in 2015, 20% in 2018, 34% in 2020 and 25% in 2022. Like Casy Stengel used to say, "You can look it up."

This is the cover of *Time* magazine's March 9, 2009, issue which was on newsstands the week when financial fear and panic were at their peak during the financial crisis. Optimism was nowhere to be found and according to *Time*, there was just one thin thread of twine between you and the Jaws of Hell. There will never be a shortage of pundits who see gloom ahead. The most notorious example is the August 1979 *Business Week* cover story: "The Death of Equities: How Inflation Is Destroying the Stock Market". And the Death of Equities gloomsters are still at it today. Maybe they'll eventually be right. But I doubt it. Their history of failed predictions is the result of focusing obsessively on the here and now and what might happen next and avoiding any trace of a historically based, optimistic long-term perspective.

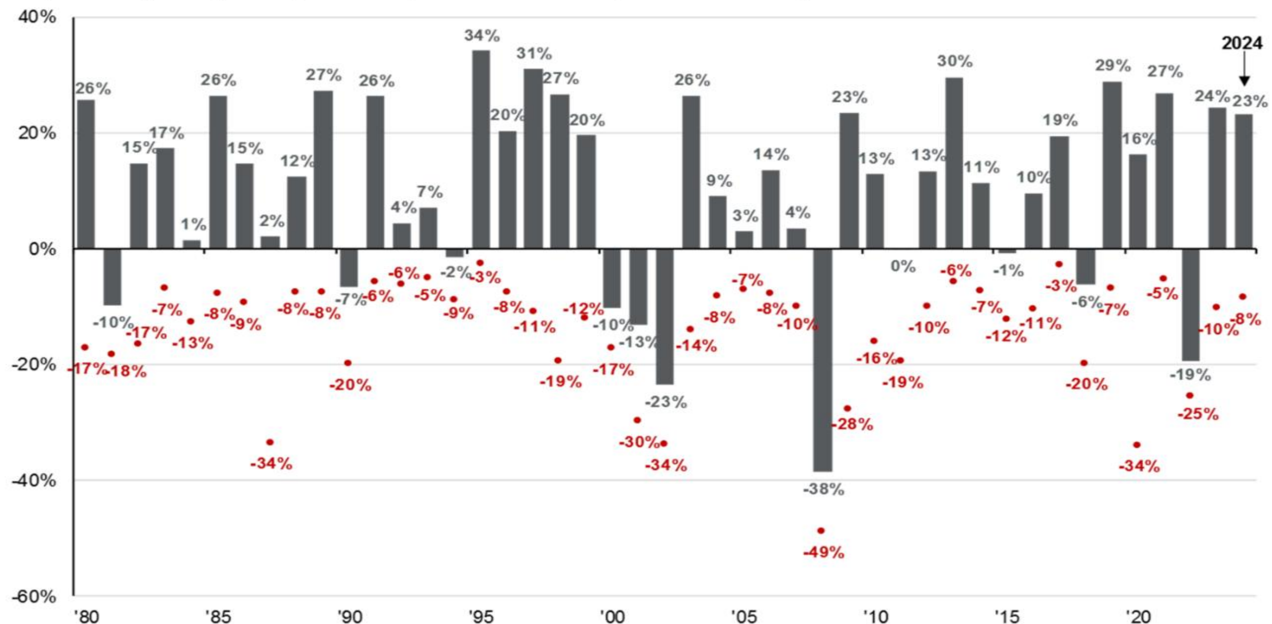
Nobody knows why the market reversal began on March 10th, 2009. I know that nobody sent out a Tweet saying "Buy!" For the past sixteen years the financial media has continued to scare investors away from stocks by serving up a daily dose of one crisis after another, all sure precursors of our imminent doom. A dysfunctional federal government, tariff threats, inflation (again!), interest rates and the wars in Ukraine and the Middle East being current favorites. Number one on today's Top 10 Apocalypses list is the fear of a tariff war. Investors fear tariffs because they raise prices on imported goods if importers or retailers don't absorb them. U.S. tariffs can lead to retaliatory tariffs from other countries, potentially harming U.S. manufacturers. Thus, we are bombarded with ongoing media claims that an escalating trade war might cause the world to spin out of its orbit. This is the latest example of the financial media's tendency to choose one important economic or financial issue, repeat it relentlessly for as long as possible and then when the worst-case scenario fails to materialize, drop it to go on to the next one. Morning, noon, and night the financial media does its best to extinguish any flicker of optimism that might be budding up in its audience. Meanwhile, as the pessimists pound away on their keyboards, the optimists are changing the world for the better. The real and imagined crises of the past sixteen years have been so numerous that, to my great relief, I've forgotten most of them and I'm sure you have also. In October 2008, Warren Buffett wrote an op-ed piece in the *New York Times* that proved prophetic. In it he said –

"I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month — or a year — from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So, if you wait for the robins, spring will be over…. Equities will almost certainly outperform cash over the next decade, probably by a substantial degree. Those investors who cling now to cash are betting they can efficiently time their move away from it later. In waiting for the comfort of good news, they are ignoring Wayne Gretzky's advice: "I skate to where the puck is going to be, not to where it has been."

Those who took Buffett's optimism to heart and stayed invested should be happy with the results. Yet too many investors have missed the historically large gains in domestic stocks since then. Several reasons come to mind -

- The average American is unlikely to be a successful long-term investor because he or she is untrained in the subjects required to succeed. Even worse, our human nature makes us bad investors. We are naturally inclined to speculate rather than invest. Although we like to think that our investment decisions are the result of rational analysis, they are more likely based on instinct, impulse, or emotion, especially during times of market volatility. In 20 years as a financial advisor, I have seen no change in this sad state of affairs. Thus, the primary function of financial advisors is to protect clients from themselves.
- Many investors make investment decisions in response to political events – especially those that have disappointed them. This is more common than we would like to admit and one that has impoverished the portfolios of many conservatives over the past four years and the portfolios of liberals since election day. Stock prices are primarily influenced by factors more important than who is president. These factors include inflation, interest rates, commodity prices, the value of the dollar, and geopolitical events. While presidents can influence some of these elements, they do not have complete control over any of them.
- Despite all the warnings that past performance is no guarantee of future returns, too many investors make investment decisions based on past performance, sometimes as short as one year. What's worse, much of this performance chasing is done following the advice of financial professionals. The financial media deifies successful money managers but never attempts to discover if the past performance was the result of skill or luck. It promotes these managers, not because they have some special insight or remarkable strategy but because they attract eyeballs, ears, and clicks.

JP Morgan Guide to the Markets 1Q 2025



- Investors do not know stock market history and become rattled by ordinary market volatility. This chart shows the annual returns of the S&P 500 Index since 1980 in gray, and the largest intra-year drawdown as a red dot for each year. Note that there was an intra-year drawdown every year, even in years when the S&P 500 yielded above average returns. Since 1980, the average intra-year decline for the S&P 500 has been -14.1%. Five times the decline was more than twice that. Downside volatility is a normal component of equity investing. So, don't be surprised the next time you see large font headlines proclaiming, "S&P plunges 10%". Since 2009, the S&P 500 has fallen by more than 10% eleven times, even though we have been in one of the best bull markets in history. Many investors try to avoid market declines by engaging in market timing. If you believe you can time your way into and out of stocks to gain the upside and avoid the downside you are delusional and any financial professional who encourages you to do so is a devil. Unfortunately, the people who have the most to gain from poor investor behavior are the very ones who should be advising you to avoid such behavior. But volatility works both ways. Rapid declines are often followed by rapid recoveries. Attempting to make sense of why the stock market was up yesterday and down today and what

that means for tomorrow will drive you crazy. On a daily basis, the S&P 500 Index falls about 50% of the time but for the past century it has risen three years out of four. Put another way, there have been three up years for every down year. If we got stock market news monthly, quarterly, or annually, our counterproductive emotional responses would be less frequent. You don't have to follow the meaningless daily noise of the stock market to be a successful investor. In fact, the ability to tune out the daily noise is a characteristic of most successful investors. When the stock market experiences its next 14% drawdown, you will have to decide whether you'll follow a strategy based on "this time it's different" or one based on "this too shall pass". Your retirement lifestyle may well depend upon which strategy you follow.

There are no new secrets to be discovered concerning successful long-term investing - the critical truths were discovered long ago. The only way to be sure of capturing the full return of equities is to ride out their frequent and sometimes violent but always temporary declines. The best time to buy equities is when you have money to invest and the best time to sell is whenever you need the money for something more important. All else is commentary. Let's finish with one more quote from Warren Buffett – *"Anything can happen any time in markets. And no advisor, economist, or TV commentator…can tell you when chaos will occur. Market forecasters will fill your ear but will never fill your wallet….Rather than listen to their siren songs, investors – large and small – should instead read Jack Bogle's "**The Little Book of Common Sense Investing**"*. I couldn't have said it better myself.

S&P 500 Annual Total Returns (1928 - 2024)

Average Annualized Total Return (1928 - 2023): 9.8%

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CREATIVE PLANNING

<-40%	-30% to -40%	-20% to -30%	-10% to -20%	-10% to 0%	0% to 10%	10% to 20%	20% to 30%	30% to 40%	40% to 50%	>50%
						2020				
						2016				
						2014				
						2012	2024?			
						2010	2023			
						2006	2021			
						2004	2017			
				2018	2015	1993	2009			
				2000	2011	1988	2003	2019		
				1990	2007	1986	1999	2013		
				1981	2005	1979	1998	1997		
				1977	1994	1972	1996	1995		
				1969	1992	1971	1983	1991		
				1966	1987	1968	1982	1989		
				1962	1984	1965	1976	1985		
			2022	1953	1978	1964	1967	1980		
			2001	1946	1970	1959	1963	1975		
			1973	1939	1960	1952	1961	1955	1958	
		2002	1957	1934	1956	1949	1951	1950	1935	
	2008	1974	1941	1932	1948	1944	1943	1945	1933	
1931	1937	1930	1940	1929	1947	1942	1938	1936	1928	1954

The annualized average return of the S&P 500 from 1928-2024 has been about 10%. As this pictogram shows there were six "red" years with losses of 20% or more and 36 "green" years with gains of 20% or more (including 2023 and 2024). According to Dimensional, annual returns have been between 8% and 12% only seven times since 1926. Annual returns vary widely, and one year's result does not foretell the next year's outcome. To gain the benefit of the up years you have to endure the down years. Wise investors willingly endure short-term stock market volatility to benefit from those great 20%+ years inside the green lines.

This month's episode of No One Could Be That Dumb concerns the fraud perpetrated by Historic Asset Placement Services Global LLC (HAPS). The Securities and Exchange Commission has charged HAPS with fraudulently offering to resell worthless bonds. Apparently, 85 suckers were duped into investing more than $3.8 million with HAPS, which claimed that it could redeem historical bonds by working with the federal government, foreign governments, and financial and accounting firms. Most of the bonds were dollar denominated bonds issued in the 1920s by the German Weimar Republic. The German government has disavowed responsibility for these bonds since the 1950s. Other bonds in the scheme included bonds issued by the Chinese government in the 1910s and railroad bonds issued by the Russian government in the late 19th and early 20th centuries. After the 1949 communist takeover in China and the 1917 Russian Revolution, the governments of these countries have refused to recognize these debts. The defendants falsely told investors that they would get redemption proceeds of up to $15 million for the bonds after an advance payment to the bonds' issuers of $250,000. But according to the SEC the redemption process was a fraud, no payments of $250,000 were made by HAPS, and no historical bonds were redeemed. *"Lucky you! Putin and Xi are ready to write the checks. Just sign here."*

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