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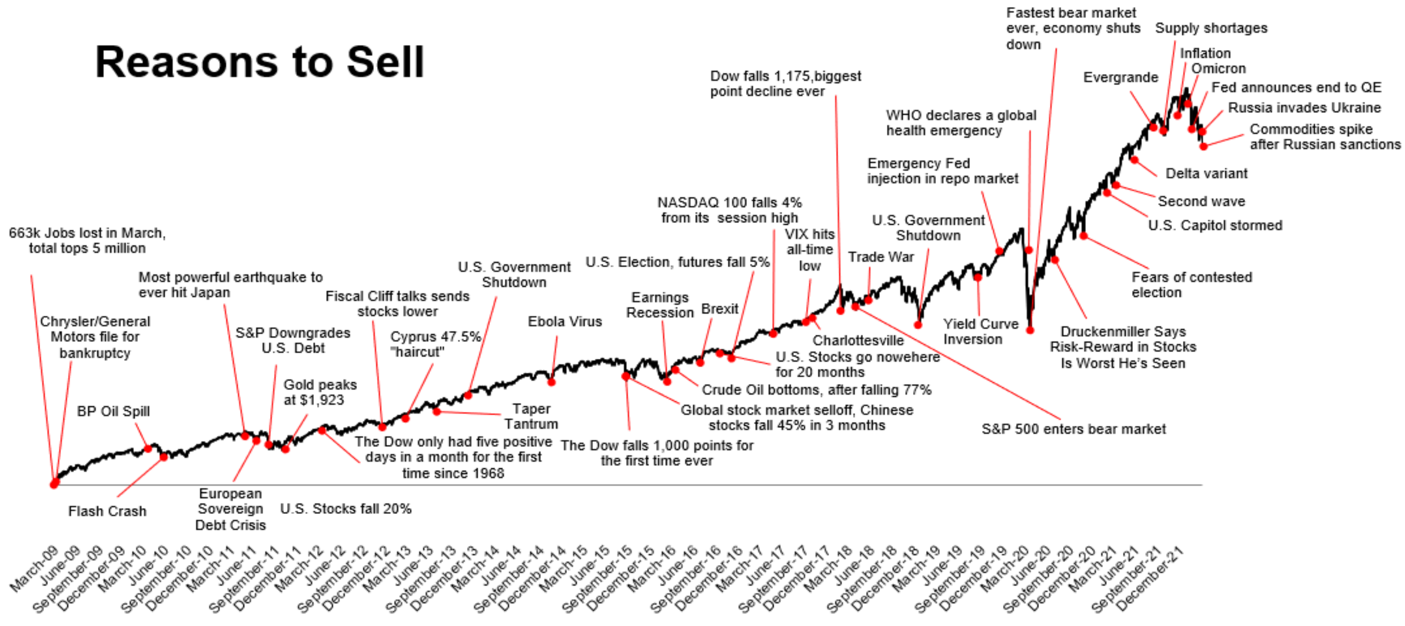
# Reasons to Sell




*Data Source: S&P 500 Total Return, YCharts, Ritholtz Wealth Management*

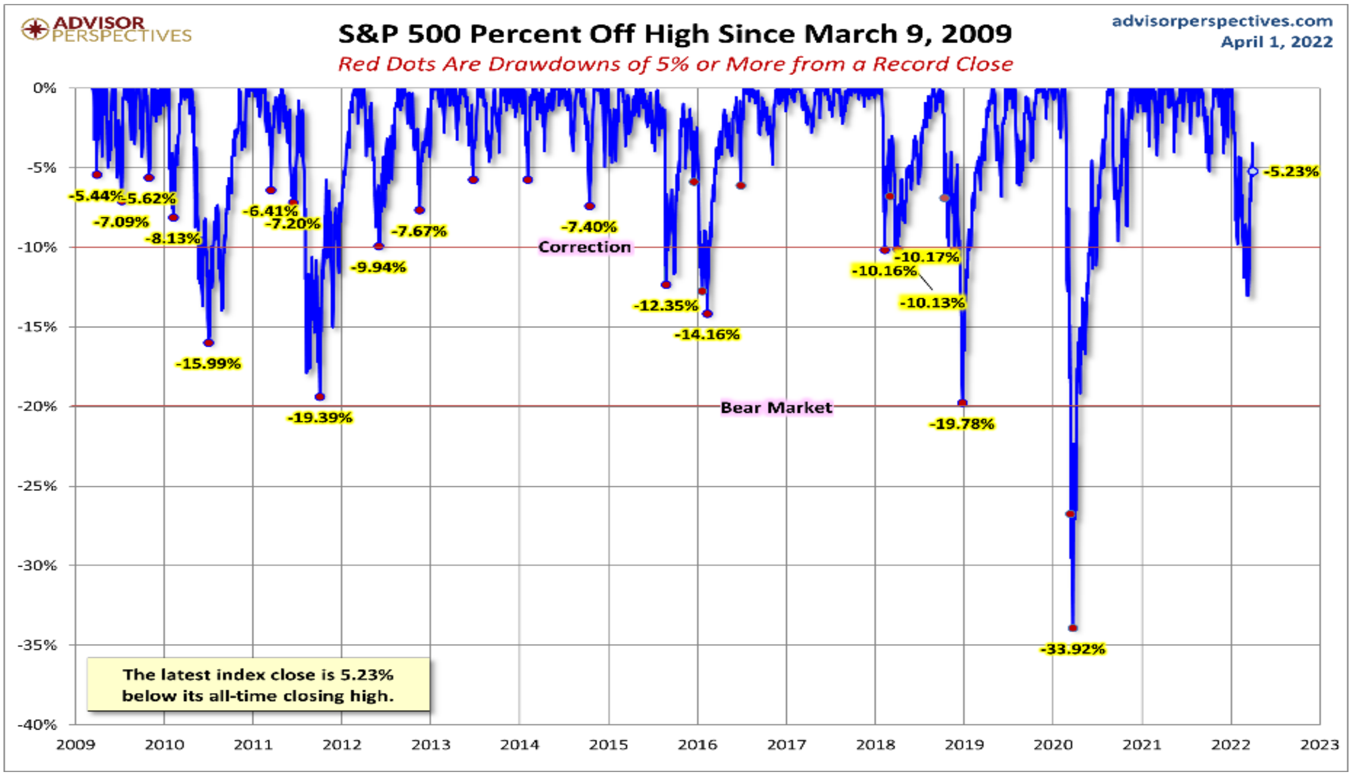
Two charts in this month's newsletter display the same information in different ways. The first, from Ritholtz Wealth Management, shows 42 headline reasons to get out of the stock market since the financial crisis bear market ended in March 2009. Since its March 9, 2009 low point, the S&P 500 has increased from 677 to 4,530 as of March 31, 2022 - a 16.6% annualized return (with dividends reinvested), according to Morningstar. If you had prior knowledge of these front-page headlines, what would you have done? Any answer other than "stay invested" would have been a mistake. This chart is a reminder that stocks don't go up in a straight line. Drawdowns are normal, temporary aspects of stock investing, usually the result of unexpected events. Stocks have higher expected returns than other investments because of the additional risks and volatility that stock investors must endure.

We just passed the two-year anniversary of the March 23, 2020 low point of the Covid bear market when the S&P 500 bottomed at 2,237. This dismal period is noted in the chart by the headline "Fastest bear market ever, economy shuts down". On March 23, 2022, the S&P 500 finished the day at 4,456. Thus, the index has almost doubled in just two years. As in years past, investors who stood firm and stayed invested, not letting their emotions control their decisions, have been rewarded for their optimism and patience.

Stock market volatility is often caused by unexpected events that impact the economy. The Russian invasion of Ukraine, rising interest rates and the spike in inflation are causing worry and uncertainty among governments, companies, and individuals about their impact on the global economy. Thus, the latest decline at the top right-hand portion of the chart comes as no surprise. Times like this can be emotionally difficult because we don't know how long they will last. When looking at this chart did you focus on the current decline and say, "Oh no, not again!" or did you shrug your shoulders and say, "What else is new?" There is nothing new under the sun, including nations hating each other, incompetent politicians, commodity price cycles, pandemics and people shouting, "The end is near!".

Human ingenuity is the engine that drives the stock market. The people who run publicly traded companies are skilled and innovative; constantly adapting to problems that arise to maintain corporate profitability. Those that fail to do so lose market share to more nimble, better managed competitors. Investing in stock index funds gives you the opportunity to profit from the ability of public corporations to thrive despite difficult challenges. Successful investing doesn't require outsmarting other investors and has nothing to do with forecasts or stock picking. It's about choosing to side with human ingenuity and betting on a future that will be better than today—because of the skill and hard work of people that you've never met.

No one knows what stocks will do in the remainder of 2022. The surest way to become a failed investor is to base your investment decisions on guesses (yours or others') about what the Reasons to Sell chart will look like by yearend. Reacting to headlines and making emotional investment decisions is likely to be counterproductive. The best way to be a successful investor is to create a financial plan with an investment strategy that you can stick with, come what may. Disciplined investing is needed in both the good and the bad times. Own and consistently fund a portfolio that is prudently allocated and globally diversified. Maintain a long-term perspective. Use index funds to keep your expenses as low as possible. Simply stated, act, don't react.



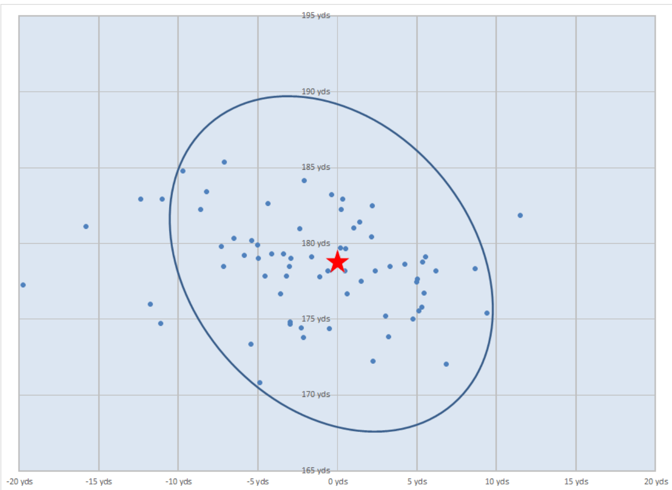

This chart from Advisor Perspectives shows every drawdown of 5% or more in the S&P 500 since March 2009. Many investors become agitated during market declines because they don't know how normal and common they are. The unpleasant dips in this chart are the reason stock returns exceed the returns of government bonds. After the market recovers and hits a new all-time high, we quickly forget the "end of the world" events that caused the decline.

The financial media does little or nothing to help investors gain perspective on market declines. This headline appeared in the *Wall Street Journal* on April 1st - "Stocks Suffer Worst Quarter In 2 Years Amid War, Inflation". The article noted that in this year's first quarter, the S&P 500 Index declined 4.9%, "*snapping a seven-quarter streak of wins*". Apparently, the editors of the *Wall Street Journal* believe that after seven consecutive quarters of positive stock market returns – during which the S&P 500 rose from 2,471 on April 1, 2020, to 4,530 on March 31, 2022 - a 4.9% decline in the first quarter is an event that requires large font, misleading, scary headlines. Frankly, it's mere click bait. Curiously missing from the article is the fact that the S&P 500 Index rose 3.6% in March. No serious observer of the stock market considers this year's first quarter decline to be out of the ordinary, unusual, or historically noteworthy. It is a typical, perfectly normal example of market volatility. A more realistic commentary on the first quarter is that stocks have given back some of the outsized gains achieved since the COVID lockdowns. Let's admit that today, when looking at our portfolios, we tend to compare its value to its high watermark instead of on how much it has gained over the past two years. It's best to ignore the Chicken Littles who claim that this downturn will end differently than all that have preceded it. Reacting to their fear mongering is likely to do you more harm than good.

For those of you still worried about the current market decline, I challenge you to remember the causes of a really bad quarter in the stock market – the 4th quarter of 2018, seen in this chart as a 19.78% decline. Any guesses? There were plenty of large font, scary headlines listing the supposed causes of the decline and the imminent end of everything we hold dear. Don't feel bad if you can't remember the headlines, I don't remember them either, but my guess is that President Trump was being blamed.

The essence of successful long-term investing is rational decision making in an environment of uncertainty. Uncertainty is not new; it's the causes of  uncertainty that change from one drawdown to the next. Amid the anxiety surrounding events this year, decades of financial history and long-term investing principles remain our best guide. No one knows how today's crises will be resolved but this fact won't stop media pundits from giving us their predictions on a daily basis. Ignore them. Contrary to what Wall Street and too many financial advisors want you to think, there is no method of analysis, no matter how sophisticated, that can reveal what's going to happen next. I assume that the recent decline in the stock market will follow the trajectory of all previous declines. Today's headlines will eventually become back page stories, make their way into the history books and then be forgotten.

## Golf and Investing




This is a chart that tracked 70 7-iron shots hit by a scratch golfer at a target – the red star – from 170 yards away. Hitting a 7-iron 170 yards is a skill well beyond the average golfer. Yet, even for a highly skilled, zero handicap golfer, there's a wide range of possible outcomes for any given shot. This dispersion of outcomes represents golf course reality. While the best  golfers might think of their strokes as rifle shots, the results more resemble a shotgun pattern.

In both golf and investing, we need to take account of the inherent, uncontrollable, normal dispersion of outcomes, in other words – uncertainty. In our financial planning, we must accept  the fact  that our decision-making is done using assumptions that will only approximate what the future brings. We cannot make good decisions by focusing only on the outcomes we'd like to experience, nor can we make  sound decisions if we focus primarily on avoiding the worst outcome, like the ball that landed 20 yards left of the target.  One of the best ways to counter the emotions involved with investing is to manage your expectations. Just like in golf, not every shot will wind up on the green. Thus, we need to accept the inevitable, unpredictable dispersion of outcomes, and not be surprised by where our ball lands, as long as it's somewhere on the green. The goal isn't to hit the hole from 170 yards away, it's to get the ball close enough to the hole for an easy 2-putt.

We can use golf to explain the difference between a winner's game and a loser's game. At the professional level, the winner of a PGA golf tournament must successfully execute difficult shots and putt better than his competitors.  In a winner's game the winner outperforms the competition.  This is not true at the amateur level.  The winner of a local club championship will be the player who makes the fewest mistakes. The winning strategy in amateur golf is to avoid risky shots and let your opponent self-destruct through poor shot making, penalty strokes and poor putting.  Amateur golf is a loser's game -- you don't win by using superior skill you win by making fewer mistakes.

Most investment advice that you hear is based on a faulty premise -- that investing is a winner's game and that professional investment managers can beat the market. It seems logical that bright, articulate, skillful investment managers can, just like the most talented professional golfers, outperform the competition. But unlike golf, investing is a loser's game at both the professional and amateur level. Few professional investors have been able to outperform the competition over the long haul.  For all investors, whether amateur or professional, the secret to success is to minimize mistakes. For individual investors this means creating a financial plan containing an investment strategy that is appropriate for your ability, need and willingness to take stock market risk.  It means ignoring those investment sirens seductively luring you into the trap of trying to beat the pros at their own game. Trying to find the next hot stock, predicting what the market is going to do next or trying to find the next superstar fund manager are inappropriate activities for investors who are trying to minimize their mistakes. These are the activities of speculators and gamblers who are playing a loser's game in which Wall Street's croupiers make a fortune.