FA Financial Alternatives
integrated wealth management

Investing Newsletter **January 2024**

Overview

In this quarter's investing newsletter, we discuss how bumpy the road has been for those seeking to obtain the stock market's long-term average returns. We also comment on how this bumpy ride has led some investors to try to time the market by being invested in it when it's rising and by selling out of it when it's falling. While this strategy is definitely alluring, it's a nearly impossible strategy to implement successfully over the long-term.

Lastly, we once again encourage clients with large bank checking and savings account balances to compare the rate of return earned in these accounts to the rate being paid by money market funds that can be purchased in their brokerage accounts. Too many investors are still not taking full advantage of the higher interest rates they can earn on their cash.

Executive Summary

- In addition to this newsletter be sure to also read our Quarterly Market Review newsletter which can be found on our website.
- In only six out of 97 years from 1926 to 2022 did the market have an annual return that came within two percentage points of the market's long-term average returns of 10%.
- It's extremely important for investors to understand market volatility so they do not get too excited about a "good year" and too worried by a "bad year".
- The allure of trying to be in the market when it's rising - and out of the market when its falling - is completely understandable. But timing decisions can often result in lower returns and increased stress.
- By staying invested and focused on the long-term, investors increase the odds that they will participate in the returns the market has to offer.
- Money Market returns are often significantly higher than bank checking and savings accounts. Investors should make sure they do not have excess cash sitting in a bank checking or savings account earning a low yield.

Quarterly Market Review Newsletter

In addition to this newsletter, be sure to read our Quarterly Market Review newsletter – available on our website – which contains both long and short-term investment return data from markets around the world. This quarter's Market Review also contains an interesting article entitled, "Country Debt and Stock Returns" which discusses the observation that historical data show little relation between country debt and stock returns.

The Bumpy Road to the Market's Long-Term Average

The US Stock Market as measured by the S&P 500 was up 26.29% last year, down 18.19% in 2022 and up 28.7% in 2021. This is a bumpy ride, but not uncommon. See the graph on page 2 which shows the returns for the market from 1926 to 2022. The average return was 10%, but how many times did the returns for the year fall close to the average return of 10%?

It might surprise you to see that in only 6 out of 97 years did the annual returns come within two percentage points of the market's long-term average returns!

It's extremely important for investors to truly understand this so they do not get too excited about a "good year" or too worried by a "bad year." Both up years and down years are the norm. Years that end up close to the average long-term returns are the exception.

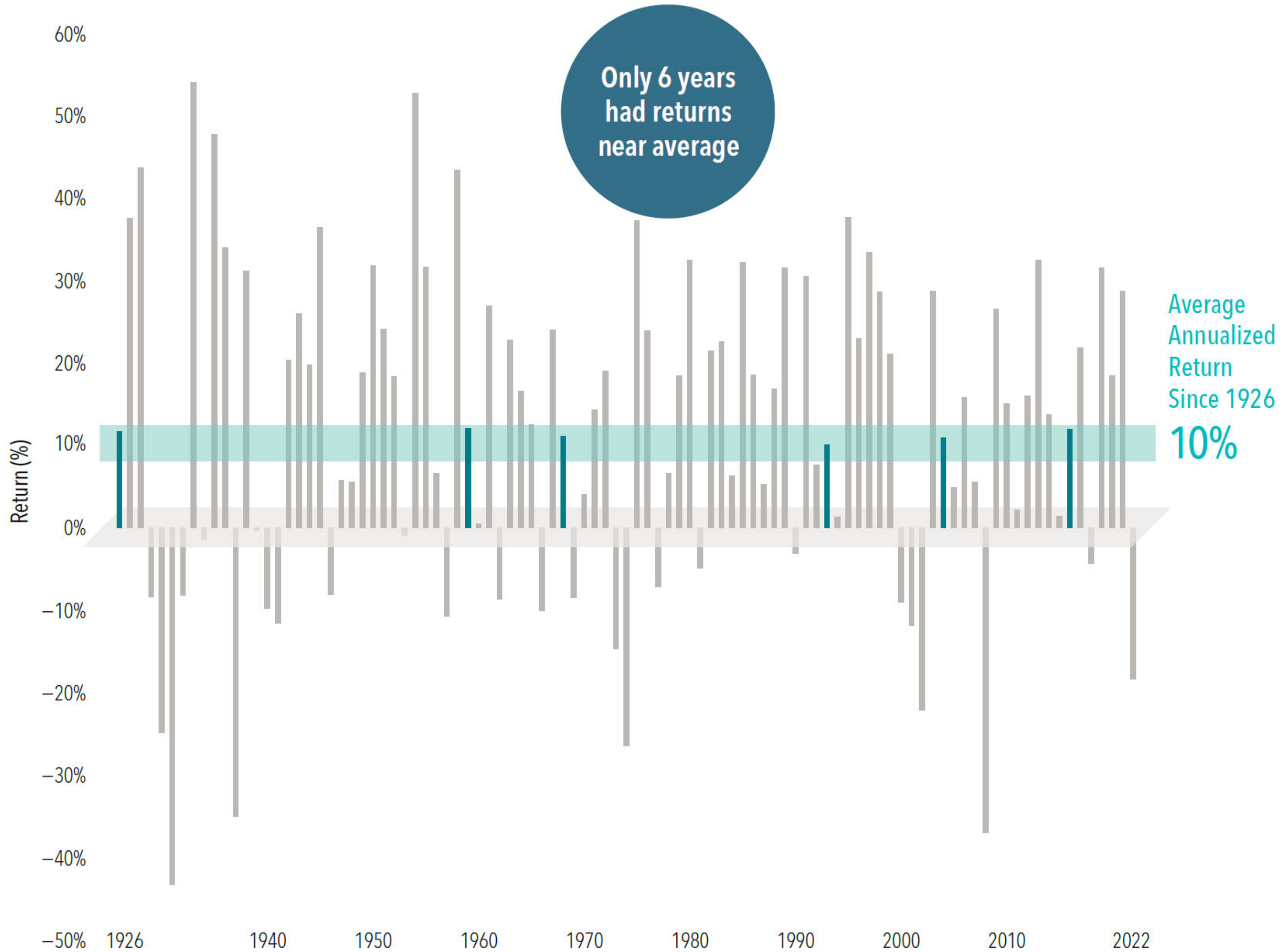
The Cost of Trying to Time the Market

The allure of trying to be in the market when it's rising and out of the market when it's falling is completely understandable. Nobody likes to see their investments fall in value. If falling markets could be avoided, investing would be easy, and returns would be spectacular. Unfortunately, by trying to avoid down markets, investors also invariably miss the up markets.

See the graph on page 3 which illustrates the cost of trying to time the market. In most cases trying to time the market will not only result in lower returns but it will also cause an enormous amount of stress because you will constantly be trying to decide whether you should be in or out of the market.

By staying invested and focused on the long-term, investors increase the likelihood that they will participate in the returns the market has to offer.

Annual Returns for S&P 500 Index
1926-2022



Source: Dimensional Fund Advisors, S&P

Money Market Funds vs Checking and Savings Accounts

In 2023, we helped many clients move funds from checking and savings accounts to higher yielding money market funds in their brokerage accounts. If you still have large checking and savings account balances, we encourage you to compare the rate of return earned in these accounts to the rate being paid by money market funds and discuss your options with us.

Summary

Stock and Bond market returns were quite strong and broad based in 2023. For additional details on this, be sure to read our Quarterly Market Review newsletter.

It's normal for equity returns to deviate significantly from average returns on a year-to-year basis. Understanding that this large range of potential return outcomes is quite normal can help investors stick with a plan and ride out the inevitable ups and downs.

It's also important to understand that it's nearly impossible to successfully time the market by getting out when it's falling and back in when it's rising. In most cases it is far better and more profitable to be a patient, disciplined, long-term investor.

If clients still have significant amounts of money in bank checking and savings accounts, we strongly encourage them to consider using money market funds – which can offer a significantly higher rate than what is being paid on bank checking and savings accounts.

We hope you and your family are well. Please contact us if you would like to discuss any aspect of your financial life in greater detail.

Happy New Year!

Missing the Best Consecutive Days

Russell 3000 Index Total Return, 1998-2022

Source: Dimensional Fund Advisors, Frank Russell Company

Past performance is no guarantee of future results. All content in this newsletter is intended as general information, not specific advice. Performance data listed is for illustrative purposes only. Portfolios are personalized and often consider many variables, including investment objectives, age, time horizon, risk tolerance, and tax variables. Information contained herein has been obtained from sources believed reliable, but not guaranteed.

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