The Price of Admission

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It has often been said that the financial markets tend to move in the direction that will cause the most people the most pain at the same time.

The stock market can be a volatile environment in which to invest capital, but it has also generated very strong returns over the past five years, 10 years, 20 years, 50 years and 100 years. To enjoy those returns over time, however, there is a price of admission that needs to be paid. That price is uncertainty. That price is learning to be comfortable with yearly returns that are never what you or the experts think they should be. And that price is patience and fortitude during temporary downturns in the economy and stock market. If you can become comfortable with paying this emotional cost, then the long-term growth of your capital can be the resulting payoff.

In some years, stocks rise far more than anyone expected, and in some years, stocks fall much more than expected. In 2009, during a crippling recession and at a time when sentiment about the future of the U.S. economy and the stock market was at its most negative, stocks rose 26.4

percent. In 2018, in an economy with strong corporate earnings growth, low unemployment, high consumer confidence and low inflation, stocks have gone nowhere, barely up 1 percent. Nobody is an expert at predicting the direction of the stock market in the short term, so you should not try, or even listen to seemingly smart folks who claim they have more vision about the future than a Magic 8 Ball.

The stock market has generated an average annualized return of 9 percent over the last 100 years. But the market has never risen 9 percent in any one of those years. You may get 20 percent in one year. Then you may get 1 percent the next year. That is the cold reality of stock investing. This uncertainty is why investing is so confounding, interesting and perplexing most of the time. And learning to live with that ever-present uncertainty is the key to enjoying that strong growth of investor capital over time.

If we attempt to predict stock market performance in any single year, then 9 percent would seem like a reasonable guess to make. It would also seem that a normal stock market year would show a return of between 5 and 10 percent, but that is far from historical precedent. Over the last 91 years, only nine calendar years showed an S&P 500 return of between 5 percent and 10 percent, so performance in this range is rare. The market does not afford us the luxury of ever coming close to that 9 percent return on an individual year basis. So far this century, only one year has shown performance in the 5 to 10 percent range — in 2007, when the index rose 5.6 percent.

The S&P 500 has risen only 1.0 percent in 2018. While this paltry return may seem disappointing, that return is well within the range of expectations, as the index rose 21.8 percent in 2017. Over the last five years, the average annualized return on the S&P 500 is 9.9 percent. During this period, some years showed great performance, and some years were true clunkers. However, if you had remained steadfastly invested for the entire period, your overall return would have been very good.

Investors could decide to shun uncertainty and choose to not invest in the historically volatile stock market by keeping their money in a bank account instead. They would, however, earn a 2 percent interest rate on their funds, while losing 2 percent to the effects of inflation. No volatility there, but no real gain in value either.

Instead of consistently watching CNBC trying to learn about the hottest new stock tip, short-selling idea or market forecast, investors should instead focus on sharpening their own investor behavior by learning to become comfortable with uncertainty. Being at ease with the ups and downs of the stock market is the best skill you can hone to grow wealth over time. And being at peace with uncertainty will also allow you to sleep soundly at night, knowing that you are moving successfully toward meeting your long-term financial goals.

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