Over the Last Decade

Over the last decade, the stock market (as measured by the S&P500) has had a fabulous run, increasing +13.6% annualized. Entering 2010, the market had just gone through a rollercoaster ride, experiencing declines from the 2000 tech bust, an increase over the next five years, and finally a sharp decline as a result of the financial crisis in 2008. It was indeed a "lost decade", the worst since the infamous Great Depression-plagued 1930s. Thankfully, the coming ten years would be markedly different. As is so often the case, the worst of times are followed by some of the best. Investors might have forgotten that, what with all the years of worry over the Eurozone and its debt, volatility in oil prices, Brexit, the election of president Trump, rising interest rates, trade and tariffs, the inverting yield curve, and the recent impeachment. The 2010s brought a reversion to the mean: not just with returns, but with volatility, company earnings, consumer and investor sentiment, and multiples.

Returns by Decade

Decade	Total Return	=	Dividend	+	Earnings Growth	+	Multiple Change
2010s	13.6%		2.3%		10.1%		1.2%
2000s	-0.9%		1.8%		0.6%		-3.3%
1990s	18.2%		2.9%		7.7%		7.6%
1980s	17.5%		5.0%		4.4%		8.2%
1970s	5.9%		4.3%		9.9%		-8.3%
1960s	7.8%		3.4%		5.5%		-1.1%
1950s	19.3%		5.8%		3.9%		9.7%
1940s	9.5%		6.5%		9.9%		-6.9%
1930s	-3.4%		1.9%		-5.7%		0.4%
1920s	14.6%		5.4%		5.6%		3.5%
1910s	4.5%		5.9%		2.0%		-3.5%
1900s	9.9%		4.4%		4.7%		0.8%
1890s	5.5%		4.3%		4.8%		-3.6%
1880s	5.8%		5.0%		-2.3%		3.1%

So why was it that the market climbed this wall of worry? One meaningful contributor to the decade's rally was merely the poor previous performance, which helped drive valuations low enough for a solid rally to ensue. Many experts believe that monetary policy, which is implemented by central banks, was arguably the largest contributor. Interest rates, which had been at 5.25% in 2007, were cut to zero by late 2008, where they remained until a very slow series of rate hikes began again in 2015. Throughout the 2010s, rates were never half as high as they were in 2007. This not only incentivized loan growth and investment, but naturally grew investors demand for stocks.

Fiscal policy also played a role, as the government attempted to spend its way out of the previous recession. Both Presidents Bush and Obama signed packages into law, seeking to jump-start growth and boost employment. More recently, the Tax Cuts and Jobs Act of 2017 provided further fiscal stimulus by cutting taxes, especially the corporate rates that were slashed from 35% to 21%, making companies more profitable

Now that we have looked back, how do we prepare for what lies ahead? Low interest rates and soaring corporate profits helped drive stocks higher, but the Fed may not always be lowering rates, and company earnings typically decline in a recession. The most important strategy that an investor should implement over the next 10 years is being well diversified across equities, fixed income, and real estate.

If you plan for the factors you can control – cash needs, cost, tax; and maintain appropriate levels of diversification in your investments, you will save some stress and headache of having to make an emotional and impulsive decision when the market does eventually go through a correction. While stocks usually perform well over long periods, in the short term they can be volatile. Diversification can help balance your investment risk, but the passage of time can help.

One of the best lessons from the last decade (and all time) is to stay invested if you want the potential for strong returns. You won't have the chance to profit from stock if you don't own any.

At TD Capital, we suggest our clients exposure to stocks be based on a combination of factors, including but not limited to:

- Expectations of cash needs from the investment portfolio over the next 5 years
- Age (time horizon)
- Ability to stay the course when the market is volatile (risk tolerance)

We encourage each of our clients to communicate with us, so that we can continually be in tune with these factors. If you have a change to any of your plans, or simply would like to have a financial check-up, please do not hesitate to call or come see us.

https://dqydj.com/sp-500-return-calculator/

https://seekingalpha.com/article/4314289-returns-decade

https://fred.stlouisfed.org/series/FEDFUNDS

https://www.investopedia.com/taxes/trumps-tax-reform-plan-explained/