THOUGHTS FOR THE WEEK

FALSE SUMMIT

April 19, 2024

A summit is the highest point of a mountain. It's often your destination when you set out on a hike. It offers the prospect for beautiful views (and lots of kudos on Strava).

A *false summit* is a term that describes an optical illusion where a protrusion *appears* from below to be the summit, while the real summit is temporarily hidden from sight.

The S&P 500 reached a new summit – or all-time high – a few weeks ago. But the media isn't convinced the view from the top is "beautiful". This has a lot of clients asking, "Is a new all-time high something to worry about? Or should investors prepare for higher highs?"

To get the conversation started, let's go back to the stock market's "trail head" to understand how we got here.

- According to some historians, the first records of a stock market date back to Venetian bankers trading government securities in the 13th century.
- Trading then spread across Europe, and in the late 14th century, modern-day Belgium became a major international trading center.
- In the early 17th century, shares of the first publicly traded company – The Dutch East India Company – began changing hands in Amsterdam.
- In the 18th century, the idea of a stock market made its way to North America, where New Yorkers started swapping securities in a more orderly fashion via The Buttonwood Agreement.
- That "orderly fashion" led to the modern-day New York Stock Exchange.
- In 1896, the Dow Jones Industrial Average was created to track the stock market, and in 1923, Henry Barnum Poor started tracking a group of stocks that would evolve into the S&P 500.
- 100 years of booms, busts, panics, and pandemics later, we find ourselves here! At the beginning 2024, the Dow Jones stood at 37,566; the S&P 500 changed hands at 4,745; and the total value of the US Stock market exceeded $50 Trillion.

  (Source for all below)

Let's add some context to that timeline.

In 1792, when the groundwork for the New York Stock Exchange was being laid:

- George Washington was signing The Postal Service Act establishing the modern-day USPS.

- The Coinage Act was passed, establishing the US Mint.
- Scottish engineer William Murdoch had begun experimenting with gas lighting.

  (Source: Wikipedia)

And in 1896, when The Dow Jones Industrial Average was just a twinkle in Charles Dow's eye:

- Henry Ford built his first vehicle.
- The New York Telephone Company was formed.
- The first women's college basketball game was played between Stanford and The University of California.

  (Source: Wikipedia)

Today,

- The USPS does over $78B in revenue, and two of their private competitors generate another $178B in sales.
- The US Mint continues to print dollars and coins, but digital payments in the United States are approaching $4 Trillion per year.
- According to some sources, the lighting industry has grown into a $125 billion market.
- Ford produces over 4.4 million vehicles per year.
- The New York Telephone Company grew into the modern-day Verizon, a $342 billion enterprise.
- And female collegiate basketball star Caitlin Clark's NIL contracts are valued at ~$3.1 million.

  (Source: Wikipedia)

With progress like that, we understand how the stock market – a collection of businesses and a proxy for the country's economic growth – has become more valuable over time, and we see little merit in getting worried about a new all-time high.

If we haven't convinced you, here's a comparison of S&P 500 average total returns from 1/1/1988 to 12/31/2023 over different rolling time periods when you either (i) invested on any day or (ii) invested only on days when the S&P 500 was at a new all-time high (Source below).

If you invested on **any day** over that time period…

- The average rolling 3 month return was 2.9%
- The average rolling 6 month return was 5.8%
- The average rolling 1 year return was 11.9%
- The average rolling 2 year return was 25.0%
- The average rolling 3 year return was 40.2%

And if you invested **only on days with new all-time highs** over the same time period…

- The average rolling 3 month return was 2.5%
- The average rolling 6 month return was 6.2%
- The average rolling 1 year return was 13.7%
- The average rolling 2 year return was 28.9%
- The average rolling 3 year return was 48.1%

Neither theory nor data have convinced us to make investment decisions based solely on the fact that the market has reached a new peak. Instead, we think investors may be better served by following some simple hiking rules: minding their supplies (keeping sufficient cash on hand); staying on trail (following a long-term investment plan); and keeping out of trouble (avoiding short cuts that sound too good to be true).

We don't know the duration or magnitude of the climb to the next peak, but history tells us that investing, unlike hiking, is likely a summit-less endeavor.

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Sources:
A Brief History of the Stock Market | SoFi
Guide to the Markets | J.P. Morgan Asset Management (jpmorgan.com)

Mike Burbank's Awards:
2017-2022 **Barron's Top 1,200 Financial Advisors: State-by-State** (formerly referred to as Barron's Top 1,000 Financial Advisors: State-by-State)
Source: Barrons.com (Awarded 2017-2022). Data compiled by Barron's based on 12-month period concluding in Sept of the year prior to the issuance of the award.

2013-2020 **Financial Times 400 Top Financial Advisors**
Source: ft.com. Data compiled by the Financial Times based the following time periods:

Awarded 2013-2020; data 12/31/12 - 6/30/19

2019-2020 & 2022 **Forbes Best-In- State Wealth Advisors**
Source: Forbes.com (Awarded 2019-2020 & 2022). Data compiled by SHOOK Research LLC based 12-month time period concluding in June of year prior to the issuance of the award.
Awards Disclosures

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S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives, and risk tolerance before investing in high-yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer.

Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

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