



*Presented by Kevin & Kyle Taylor*

The return of Market Volatility this past week and the headlines of a trade war with China have the media in a frenzy. We want to remind our clients and friends that we are still in a normal range of returns and that as long as you have an investment philosophy that you can stick with, you will be ok. Please review this short article from Dimensional Funds on setting proper expectations. As always, if you have questions or concerns, please call us and we will be happy to review your situation.

## **The Uncommon Average**

May 2019

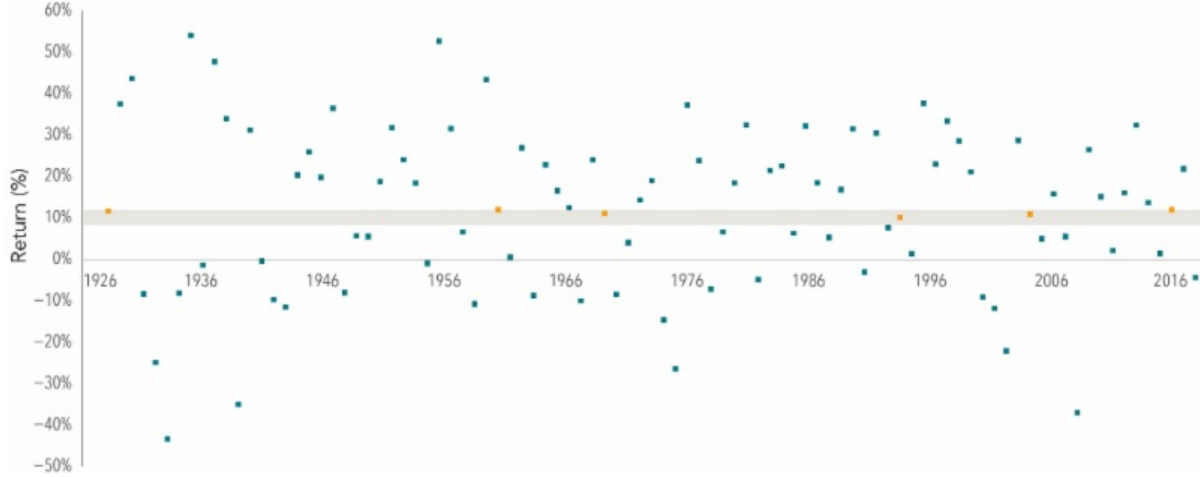
“I have found that the importance of having an investment philosophy—one that is robust and that you can stick with— cannot be overstated.”

—David Booth

The US stock market has delivered an average annual return of around 10% since 1926.<sup>[1]</sup> But short-term results may vary, and in any given period stock returns can be positive, negative, or flat. When setting expectations, it's helpful to see the range of outcomes experienced by investors historically. For example, how often have the stock market's annual returns actually aligned with its long-term average?

**Exhibit 1** shows calendar year returns for the S&P 500 Index since 1926. The shaded band marks the historical average of 10%, plus or minus 2 percentage points. The S&P 500 Index had a return within this range in only six of the past 93 calendar years. In most years, the index's return was outside of the range—often above or below by a wide margin—with no obvious pattern. For investors, the data highlight the importance of looking beyond average returns and being aware of the range of potential outcomes.

**Exhibit 1. S&P 500 Index Annual Returns (1926–2018)**



In US dollars. S&P data © S&P Dow Jones Indices LLC, a division of S&P Global. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Past performance is no guarantee of future results. Actual returns may be lower.

## TUNING IN TO DIFFERENT FREQUENCIES

Despite the year-to-year volatility, investors can potentially increase their chances of having a positive outcome by maintaining a long-term focus. **Exhibit 2** documents the historical frequency of positive returns over rolling periods of one, five, and 10 years in the US market. The data show that, while positive performance is never assured, investors' odds improve over longer time horizons.

### Exhibit 2. Frequency of Positive Returns in the S&P 500 Index Overlapping Periods: 1926–2018



In US dollars. From January 1926–December 2018, there are 997 overlapping 10-year periods, 1,057 overlapping 5-year periods, and 1,105 overlapping 1-year periods. The first period starts in January 1926, the second period starts in February 1926, the third in March 1926, and so on. S&P data © S&P Dow Jones Indices LLC, a division of S&P Global. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Past performance is no guarantee of future results. Actual returns may be lower.

## CONCLUSION

While some investors might find it easy to stay the course in years with above average returns, periods of disappointing results may test an investor's faith in equity markets. Being aware of the range of potential outcomes can help investors remain disciplined, which in the long term can increase the odds of a successful investment experience. What can help investors endure the ups and downs? While there is no silver bullet, understanding how markets work and trusting market prices are good starting points. An asset allocation that aligns with personal risk tolerances and investment goals is also valuable. By thoughtfully considering these and other issues, investors may be better prepared to stay focused on their long-term goals during different market environments.

[1]. As measured by the S&P 500 Index from 1926–2018.

source: Dimensional Fund Advisors LP.

There is no guarantee investment strategies will be successful. Investing involves risks, including possible loss of principal. Diversification does not eliminate the risk of market loss.

All expressions of opinion are subject to change. This article is distributed for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services.

---

Kevin Taylor is a financial advisor located at Vaughn Wealth 1127 Edgewater Drive, Orlando, FL 32804. He offers securities and advisory services as a Registered Representative and Investment Adviser Representative of Commonwealth Financial Network®, Member FINRA/SIPC, a Registered Investment Adviser. He can be reached at 407-872-3888 or at Kevin@vaughnwealth.com.

Kyle Taylor is a financial advisor located at Vaughn Wealth 1127 Edgewater Drive, Orlando, FL 32804. He offers securities and advisory services as a Registered Representative and Investment Adviser Representative of Commonwealth Financial Network<sup>®</sup>, Member FINRA/SIPC, a Registered Investment Adviser. He can be reached at 407-872-3888 or at Kyle@vaughnwealth.com.

© 2019 Commonwealth Financial Network<sup>®</sup>

This communication strictly intended for individuals residing in the states of AL,CA,FL,GA,MI,MO,NC,NY,PA,SC,VA. No offers may be made or accepted from any resident outside these states due to various state regulations and registration requirements regarding investment products and services. Investments are not FDIC- or NCUA-insured, are not guaranteed by a bank/financial institution, and are subject to risks, including possible loss of the principal invested. Securities and advisory services offered through Commonwealth Financial Network, Member FINRA/SIPC, a Registered Investment Adviser. Fixed insurance products and services offered through CES Insurance Agency or Vaughn Wealth.

