INTEGRIS
WEALTH MANAGEMENT

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Rolling with the Stock Market

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Periods such as the past fifteen years can bring many investors to question if investing in the stock market is really worthwhile. The past fifteen years have included, among other events, the tech-driven bear market of 2000-2002 and the 2008-2009 financial crisis. When difficult periods stretch out to 10+ years, even investors who have long time horizons can begin to have doubts, and downward moves in the market such as we have seen recently serve to bring those doubts front of mind.

At Integris, our investment strategy is biased toward patience and discipline despite short-term volatility, but it is prudent to audit our biases. The below table shows the worst return between January 1950 and December 2015 for a "Moderate" risk asset allocation for each given time period. For a sanity check, also shown are the returns for each given period ending December 2015 (the most recent period).

Pro Forma Moderate Risk Index Returns
60% Growth Assets, 40% Intermediate Term Bonds
Pro Forma Index Returns January 1950 to December 2015
Adjusted for Estimated Financial Planning and Investment Management Fees of 1.25%

	Worst Period	Most Recent Period
25 Year Periods	6.4%	7.0%
20 Year Periods	5.6%	5.8%
10 Year Periods	2.1%	4.4%
5 Year Periods	-1.4%	4.9%
Average Annualized Return – Full Period		8.6%

- In identifying the "Worst Period" returns, we look at every possible beginning-of-month start date: The first twenty-five year period begins on January 1, 1950 and ends on December 31, 1974; the second twenty-five year period begins February 1, 1950 and ends January 31, 1975; and so forth, up until the latest period, which begins January 1, 1991 and ends on December 31, 2015. While we are using the returns from market indexes to calculate these "pro forma" numbers, we are also subtracting 1.25% per year to roughly estimate investment management fees and trading costs. This means that had you been able to invest in these indices, and had you done so beginning in the worst possible month, your annualized return over the subsequent twenty five, twenty, ten, or five years would have been that “Worst” number.

- The “Most Recent Period” is the 25, 20, 10, or 5 year period ending on December 31, 2015.

One observation that comes to mind when we review this information is that for investors with investment time horizons of at least twenty years, even the single worst periods are not catastrophic. The average annualized return for the worst 20 year period was 5.6% and the worst 25 year period was 6.4%. These are not stellar returns, but neither are they disastrous.

It is not surprising to see that the returns over the past twenty and twenty-five year periods are close to the worst longer term returns since 1950. After all, these periods include both the tech-driven crash of 2000 and the “Great Recession” triggered by the 2008-2009 financial crisis – the worst financial crisis since the Great Depression. Another period since 1950 that saw similarly low long term returns was the bear market of 1973-1974, when markets dropped by almost as much as we saw in 2008-2009.

Recent results that are near the bottom of what investors have seen over the past sixty-five years are undoubtedly why even long term investors are feeling uncomfortable, and questioning if the “world has changed.” While markets have evolved dramatically with globalization and technology, the most important tenet governing investing is based on human nature, and it has not changed: the requirement by investors that higher risk be rewarded with higher return. We expect that investors will continue to price assets such that taking the risk of the markets will produce similar returns long term, adjusted for inflation, as it has in the past.

In short, what we have seen in the markets recently is not outside of expectations. Our belief that the basic tenets of risk and return remain intact is reinforced by this review of recent markets in the context of history – despite the drama of the moment, markets appear to just be doing what they always do.

written by:
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Pro Forma Moderate Risk Index Returns: All pro forma returns shown are total returns, which include any increase or decrease in market price and reinvestment of all dividends and interest earned on any investments. The pro forma returns shown are not actual returns realized from investing in this fashion; rather, they are pro forma returns calculated by using monthly total return data for each underlying index that we use to represent an asset class, as published by Morningstar. For each month, the published return for each index to be included is multiplied by the percentage of assets to be allocated to that index. These “weighted returns” are then summed to calculate a weighted average return for each month. The resulting series of monthly pro forma returns is used to calculate the annualized returns and other statistics shown above. Return information is not available for all the growth asset indices for all periods, as returns were not reported for all of the indices back to 1950. When an index of a growth asset class does not have historical returns available, the allocation to that index is re-allocated pro rata to the other growth asset indices for that period. The overall allocation to growth assets is kept constant for all periods. Please contact us for more information regarding the indices used to calculated the pro forma returns shown above.

An estimated financial planning and investment management fee of 1.25% per annum has been deducted from the annualized index returns shown. This represents the estimated maximum asset management fees that would be charged by Integris to provide our services based on our current fee schedule, plus the estimated fees that would be charged by the mutual funds currently used by Integris to manage a portfolio allocated to the asset classes represented in the pro forma returns shown.

Individual account performance will vary according to the date of initial investment and the amount and timing of contributions and withdrawals. Investment return and principal value will fluctuate, so that your investment, if sold, may be worth more or less than the original cost. Investing in non-U.S. securities may entail higher risk due to non-U.S. currency fluctuations and political or economic uncertainty that may be especially heightened when investing in emerging markets. Diversification does not ensure against loss. All investments involve a risk of loss.

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