Financial Commentary

The Crescent Group at RBC
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The Crescent Group at RBC Wealth Management
thecrescentgroup@rbc.com
214-775-6458
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What's your plan for when the cycle turns?

Famed investor John Templeton once said that "bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria." Different analysts have different methods of demarking bull markets. My preference is to look at long-term cycles, which begin and end with "lost decades." Lost decades are periods of ten years or more where the U.S. stock market experiences no gain. The last lost decade we experienced with the U.S. stock market bottomed out in April 2009. That means we're now in the middle of the 18th year of a U.S. bull market that has only experienced corrections of one year or less.[1][2]

Let's take a minute to think about the current U.S. equity bull market using the parameters that Templeton outlined. The current bull market began in April 2009, which was a time of peak pessimism during the Financial Crisis. For several years following 2009, as I spoke with a wide array of investors, one thing that stood out was how skeptical everyone was of the continued stock market recovery from the Financial Crisis. As the U.S. stock market staged a dramatic recovery in the years after 2009, many investors expected a crash or correction. Most investors prioritized protection over gain. So, the current bull market began at a time of peak pessimism and spent its first few years in a period of skepticism, just as Templeton expected it would.[1]

After the first several years of recovery from the financial crisis, the U.S. stock market entered the next phase, which Templeton calls "optimism". The stock market experienced several years of gain, and the lost decade that began in March 2000 finally came to an end. By lost decade, I'm talking about the fact that the U.S. stock market peaked in March 2000, and didn't successfully reach a sustained new high level until early 2013. So, the U.S. stock market was flat at best (and down most of the time) for a period of 13 years. Understandably, in March 2013 – when the U.S. stock market finally reached its high level from 13 years earlier – investors were skeptical. I still heard plenty of investors talking about their expectations of a correction. But investors did start to show optimism that the market might finally be on the path of a sustained recovery.[1]

The market continued on this path of optimism for several more years. Then things started to change in 2020. Fueled by trillions of dollars in covid-19 stimulus funds and the Federal Reserve setting interest rates to zero, financial markets entered a new phase of speculation. Electronic tokens, an almost unlimited offering of new cryptocurrencies, and MEME stocks entered the financial vocabulary. After a brief pause in 2022, this trend has continued. It's impossible to know right now, but we may look back on this most recent time period as the period of "Euphoria" for the current bull market.[2]

The data appear to support the idea that we're currently in the late stage or "euphoria" period of the 18-year bull market that began in April 2009. The data show that historically, when the U.S. stock market has reached its current valuation level, it has generated a negative annual return over the next ten years. Now, that is a statement about what has happened in the past when the U.S. stock market has reached current levels. And while it's a very important data point that should inform investor behavior at the present time, it's also true that it doesn't necessarily tell us what will happen over the next decade. It's possible that "this time is different", and the U.S. economy will experience a productivity boom that allows for tremendous profit growth and hence continued stock market growth. But this brings to mind another quote by John Templeton: "The four most dangerous words in investing are: 'This time it's different.'"[(3)(4)]

While it's certainly possible that "this time it's different", I have a nagging feeling coming from experience and common sense, which tell me it isn't. The global economy has experienced tremendous technological revolution over the centuries, yet one constant remained through all those revolutions: the economy moves in cycles. We're now in our 18th year of an upward cycle in the U.S., and that tells me we're probably closer to the end than the beginning.

What's an investor to do? We know that trying to time financial markets doesn't work. What I recommend is taking a careful look at your allocation and making sure you're diversified beyond what the simple market weightings currently provide. It's both important and difficult to strike a delicate balance between the opportunity to participate in continued potential future gains, while helping to provide some protection should the most exuberant areas of financial markets go through the typical downturns they've experienced when past economic cycles have ended.

Paul Hendershot, CFP® – August 2026
Senior Vice President – Financial Advisor **|** *Senior Portfolio Manager – Portfolio Focus*
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Sources: (1) Factset. (2) Philanthropy Roundtable. (3) Apollo Global Management 1/2026. (4) Google.

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