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May 2019 Investment Commentary

In last month's commentary, we discussed some of the key mistakes we saw investors making in 2019, which in many ways repeated the investment mistakes of 2018. The 2019 mistakes mainly consisted of sitting in cash during the majority of the stock market's recovery from December 2018 low levels, followed by buying back into stocks in April after stocks had already recovered. This behavior of selling low and buying high reflects the opposite of the "buy low, sell high" mantra that almost all investors know as the path to profits. Unfortunately, it turns out that investors on average did in fact buy back into stocks just in time for a market correction in May. In this commentary, we'll discuss a new key mistake that many investors made during May, and explain what investors should do now to position themselves for success in the midst of the current market correction[1][2][3].

The past twelve months have tested and tried investor patience. They have also demonstrated the importance of remaining committed to a long-term investment strategy. After reaching all-time high levels last September, stocks declined 20% into the end of December. Mutual fund and ETF fund flow data showed that investors poured money into stocks towards the peak of the market last September, and then sold after the market declined, essentially buying high and selling low. We understand the emotional and mental impulses at work that cause investors to buy when everyone else buys, and sell when everyone else sells. But unfortunately, these short-term impulses ended up costing investors a lot of money. Within four months, U.S. stocks once again hit new record levels in April of 2019. So, investors who focused on the short term and sold out of stocks in December missed out on both a large move upward in stocks prices, as well as dividends. Investors who maintained patience and a long-term view continued to collect dividends through the market turmoil, and also benefited from a very large upward movement in stock prices[1][2][3][4][5].

The conflict between short termism and long termism has continued through May of 2019, with individual investors once again committing the mistakes that cost them money in 2018. According to organizations that track investor behavior, individual investors and their advisors heavily bought back into stocks in April after stocks had already recovered upwards. These investors ended up buying back into stocks just before a 7% drop in stock prices in May. To make matters worse, according to The

Wall Street Journal, investors as a whole then sold stocks again after they went down in May. The behavior this year and last year explain why investors lost twice as much money as the S&P 500 in 2018, and also explain why the average individual investor has gotten a 1.9% average annual return over the past thirty years. Yes, the average individual investor has lost money over the past thirty years after accounting for inflation[1][2][3][4].

When you think about it, it's a great societal tragedy that the average individual investor has lost money after inflation over the past thirty years. Yet few people know or think about this. The average investor spends a lifetime working for their money, but they rarely succeed at getting their money to work for them. Rather than taking a big-picture, long-term view, many investors become victims of short-term investing by attempting to react to market swings and time the market. Our Group views our overriding purpose as generating the long-term return needed for each of our clients to achieve their lifelong financial goals. A long-term return well in excess of what the average individual investor earns.

Our Group employs a multi-point strategy in successfully shepherding our clients through a long-term investment horizon:

1. We take over the investment decision making on behalf of our clients so that investment decisions don't get made on the basis of short-term market movements and emotional ups and downs. Our Group would never sell or buy an investment simply because everyone else does. For example, we sold stocks this year because they reached very high prices, and we held the proceeds in cash and bonds because we have had a hard time finding stocks to buy at reasonable prices. But we sold in April when stocks were hitting all-time highs, not in May after stocks went down. We will continue to hold a higher allocation of bonds and cash until we find smart places to put the money.

2. For clients living off of their assets, we maintain three to five years' worth of living expenses in cash and bonds. This prevents clients from having to sell stock at depressed prices when they need money during a market downturn, and allows us to focus on generating an adequate long-term investment return without having to worry about short-term stock price movements.

3. We only invest in high quality investments with a history of stable profits and cash flows. Each investment has a proven track record of enduring through a continuous stream of unprecedented crises. This gives us confidence that our investments will endure through future crises.

The substantial market swings over the past twelve months have made it difficult to tune out the short-term noise and maintain a long-term focus. But doing so remains the right decision for retirement success. History has shown that stocks fluctuate over the short term but increase over the long term. Not a single person in the world knows when the stock market will correct and by how much. Trying to guess will result in failure. The best strategy for investment success continues to consist in holding several years' worth of living expenses in cash and bonds while maintaining the remainder of your funds in assets that will work for you to generate a solid long-term return. Our Group will continue to work for you to take the short-term noise and emotions out of investing, and position you for long-term success.

Best Regards,

The Crescent Group
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Sources:

(1) MarketWatch
(2) The Wall Street Journal
(3) DALBAR
(4) S&P Dow Jones Indices LLC
(5) JP Morgan

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