FOCUSING ON THE LONG-TERM REDUCES INVESTMENT RISK

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"This article lays out a series of steps for becoming a successful investor. It also shows how stock market volatility is dramatically reduced the longer the investment timeframe."

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.

Most investors realize the benefit of investing in the stock market. From the origination of the S&P stock index in 1926 through 2018, the S&P has provided a 10% annual return. The original index contained only 90 stocks. It was expanded to 500 stocks in 1957. From 1957 through 2018, the S&P 500 has averaged an 8% annual return. These are the returns of a "buy and hold" investor during these timeframes.

During the last few months there has been a significant increase in stock market volatility due to the United States – China trade dispute and fears of the U.S. economy slipping into a recession. While these are legitimate fears, timing moves into and out of the stock market are very difficult to do successfully, and studies have shown that "market timers" significantly underperform "buy and hold" investors.

How can investors maintain their portfolios in times of turbulence? We recommend the following steps to help you stay invested to enjoy the benefits provided to long-term investors:

1) **Invest for the long-term.** This is the most important step, and it is the focus of this article. *The longer the investment timeframe, the lower the risk of losing money.*

2) **Invest in a diversified portfolio**. Different segments of the market don't move in sync. Allocating your portfolio among U.S. large stocks, U.S. small & mid-cap stocks, international stocks, bonds and alternative assets will reduce a portfolio's volatility.

3) **Don't invest any more aggressively than what you can stomach in a market downturn.** If you have a hard time staying invested when stock prices are falling, then utilize a more conservative portfolio by allocating more to bonds. While this will reduce the portfolio's long-term returns, it is worth it if it enables you to stay invested during the difficult times.

4) **If you are living off your portfolio (i.e. taking regular distributions), set aside three years of withdrawals in a conservative investment such as a short-term or intermediate bond fund.** This way, during a market downturn, there will be no need to sell any of the stock portion of the portfolio for up to three years to cover distributions. This is important because, historically, the stock market normally fully recovers from a bear market within three years (with one exception being the Great Depression).

While we are able to implement steps 2 through 4, we need clients to assist with the first step. During difficult markets, it is important for them to focus on the long-term and not be overly influenced by the short-term gyrations and the negative stories being reported by the press. We can assist during these times by talking with clients. In addition, we can help focus on the long-term by providing educational pieces like this article.

Historical Worst Returns by Holding Period - 1950 to 2018: The chart below is very insightful. It shows for different timeframes the range of annual returns from 1950 through 2018 for an all-stock portfolio, an all-bond portfolio and a portfolio made up of 50% stocks and 50% bonds. As shown in the graph, the longer investments are held, the risk of losing money decreases rather drastically:

1) *Maximum loss for all-stock portfolio:* While the maximum loss was 39% for 1 year (i.e. 2008), for 5 years, the maximum annualized loss was 3% and for 10 years, it was a 1% loss. *For 20 years, the worst annualized performance was an annualized gain of 6%.*

2) *Maximum loss for Blended portfolio:* For a 50% stock, 50% bond portfolio, the maximum 1-year loss was 15%. For 5 years, the worst performance was an annualized gain of 1%, for 10 years, it was a gain of 2%, and for 20 years, it was a gain of 5%.

Our Services

Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

Financial Planning Services:

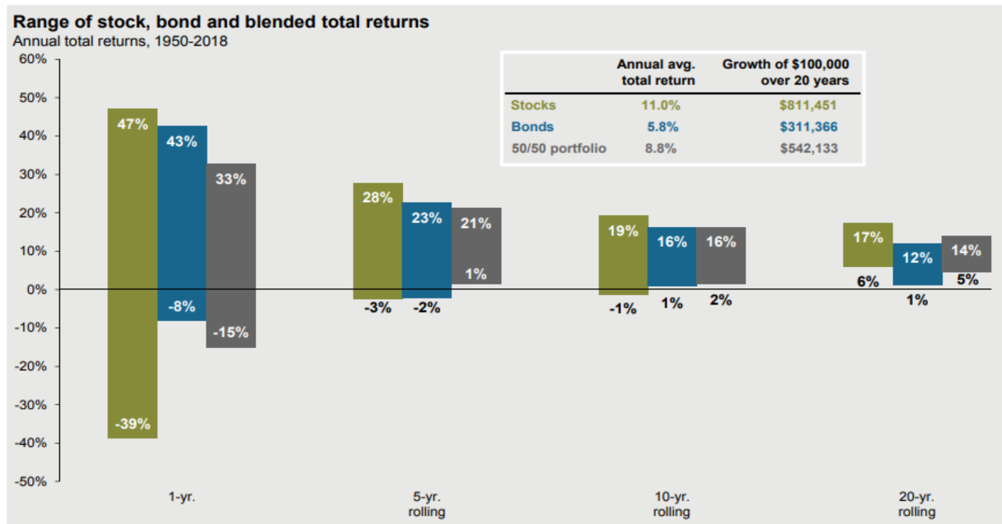
- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

Tax Services:

- Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:
    - Tax Return Preparation
    - Income Tax Projections
    - Tax Minimization Ideas
    - Tax Authority Representation

Other Services:

- MAM has retained several outside experts, whose services are available at no cost to our clients:
    - Medicare Planning– Eileen Hamm of Superior LTC Planning Services, Inc.
    - Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.



Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2018. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2018.
Guide to the Markets – U.S. Data are as of June 30, 2019.

J.P.Morgan Asset Management

Futility of "Market Timing": I have often written about the futility of trying to "time the market." Successfully doing so entails getting two decisions right. The first is when to sell and the second is when to buy back in. As long as investors have set aside three years of anticipated portfolio withdrawals, they will likely be able to wait for a bear market to end and stock prices to recover before selling any equities.

Future Market Returns: While it is very difficult to predict future market returns, our expectation is that over the next 10 to 20 years, stock market returns will be relatively muted with annual returns for a balanced portfolio averaging in the range of 4% to 6%.

In Summary: This article provides four steps to reducing the risk of investing. While we are able to handle most of the actionable items, the one thing we ask of clients is for them to focus on the long-term and try not to worry about short-term market volatility.