

# BACKTESTS VS. REAL LIFE IN THE MARKETS

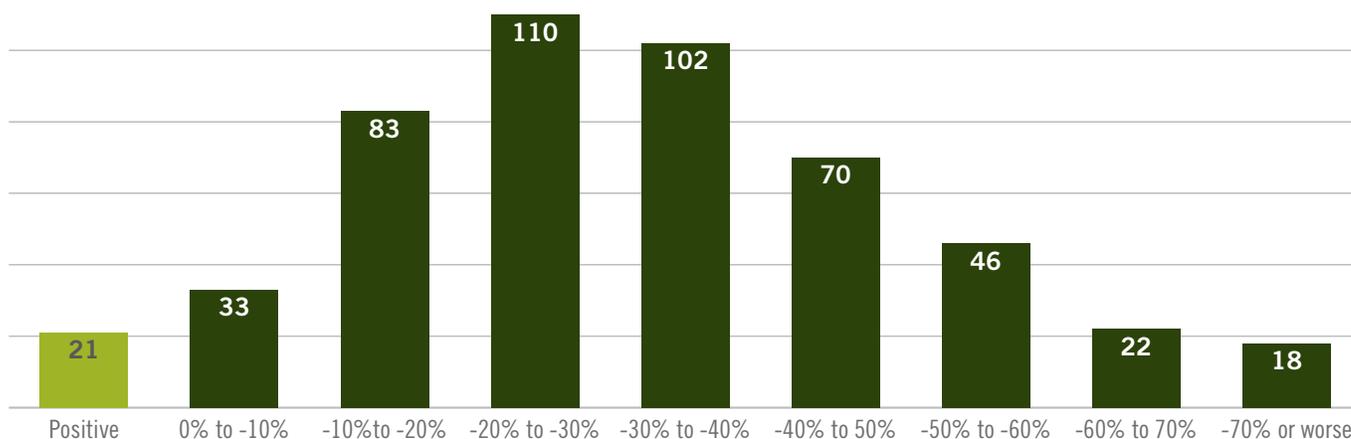


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A WEALTH OF COMMON SENSE  
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I previously wrote about the performance dispersion among S&P 500® Index companies using the following chart:

## S&P 500® INDEX PERFORMANCE YTD AS OF MARCH 20, 2020

Number of Companies by Performance Range



Past performance is not indicative of future results. Source: YCharts.

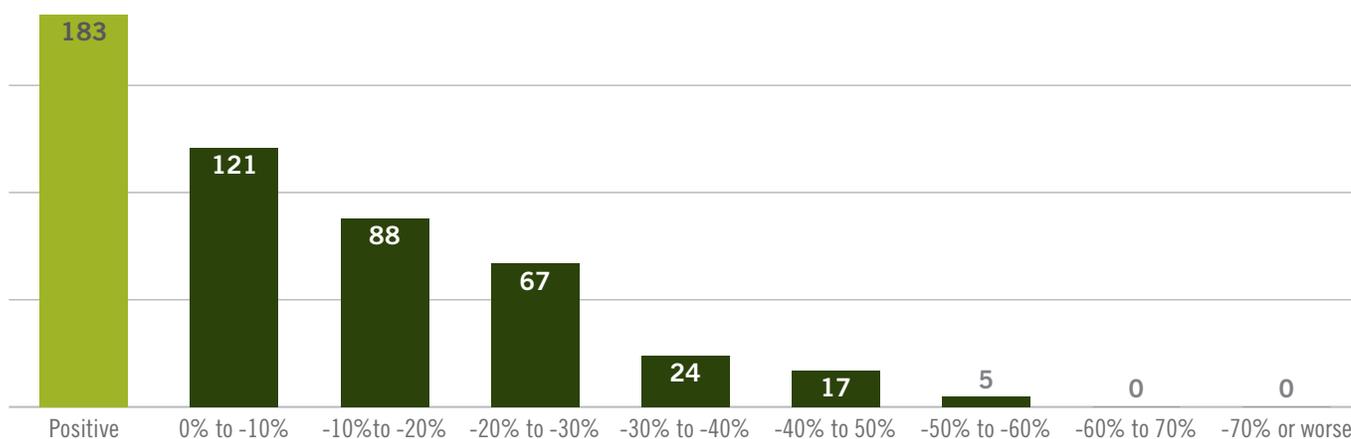
At that time, there were 156 companies down 40% or more in 2020 alone. Eighty-six stocks were down at least 50%, and 40 companies had fallen 70% or more less than three months into the year.

What a difference a few months makes.

Here's the updated performance chart, broken out by return buckets as of June 9:

## S&P 500® INDEX PERFORMANCE YTD AS OF JUNE 9, 2020

Number of Companies by Performance Range



Past performance is not indicative of future results. Source: YCharts.

- Just 4% of all stocks (21 in total) in the S&P 500 were positive as of March 20, 2020. That number is now up to 36% (183).
- Nearly 90% (451) of stocks were down by double digits then. Today, 40% (201) of the market is down by 10% or worse.
- More than 17% of stocks (86) were down by 50% or more. Fewer than 1% (just five names) are down by that amount now.
- Forty stocks were in drawdowns of 60% or worse back in March. None have that distinction today (although some are getting closer today).
- It is worth noting that many of the stocks that have seen ginormous rallies over the past few weeks and months are still getting crushed year to date.
- The cruise stocks—Carnival, Royal Caribbean, and Norwegian—are all still down more than 50% on the year. There are still plenty of energy and retail names on the list of worst performers, too.
- Surprisingly, more than 80 stocks are now *up* by double digits this year in percentage terms.
- The U.S. stock market is essentially flat on the year right now.

If you lived under a rock in 2020 and didn't pay attention to what was going on around you, simply looking at the performance number of the overall market would make you think things have been relatively boring this year. It certainly doesn't *feel* like a flat year in the market, and many stocks are still in a world of pain (even after the recent run-up).

This is one of the reasons investment strategies are so much easier to live through via backtests than real life. In a future backtest, the first six months or so of this year will look easy. In real time, this has been one of the most challenging environments we've ever seen, because everything is happening so fast.



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The **S&P 500® Index** is a free-float market-capitalization weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its return does not reflect any fees, expenses, or sales charges, and it is not available for direct investment. All investments carry a certain degree of risk, including possible loss of principal.

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