WHAT HAPPENS WHEN STOCKS MAKE NEW HIGHS?

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Your friend tells you to close your eyes and use your imagination.

Picture a world where a virus spreads across the planet, infecting 20 million people and killing nearly 750,000 of them.

The economy shutdown for months on end, leading to the worst GDP contraction and highest unemployment numbers since The Great Depression.

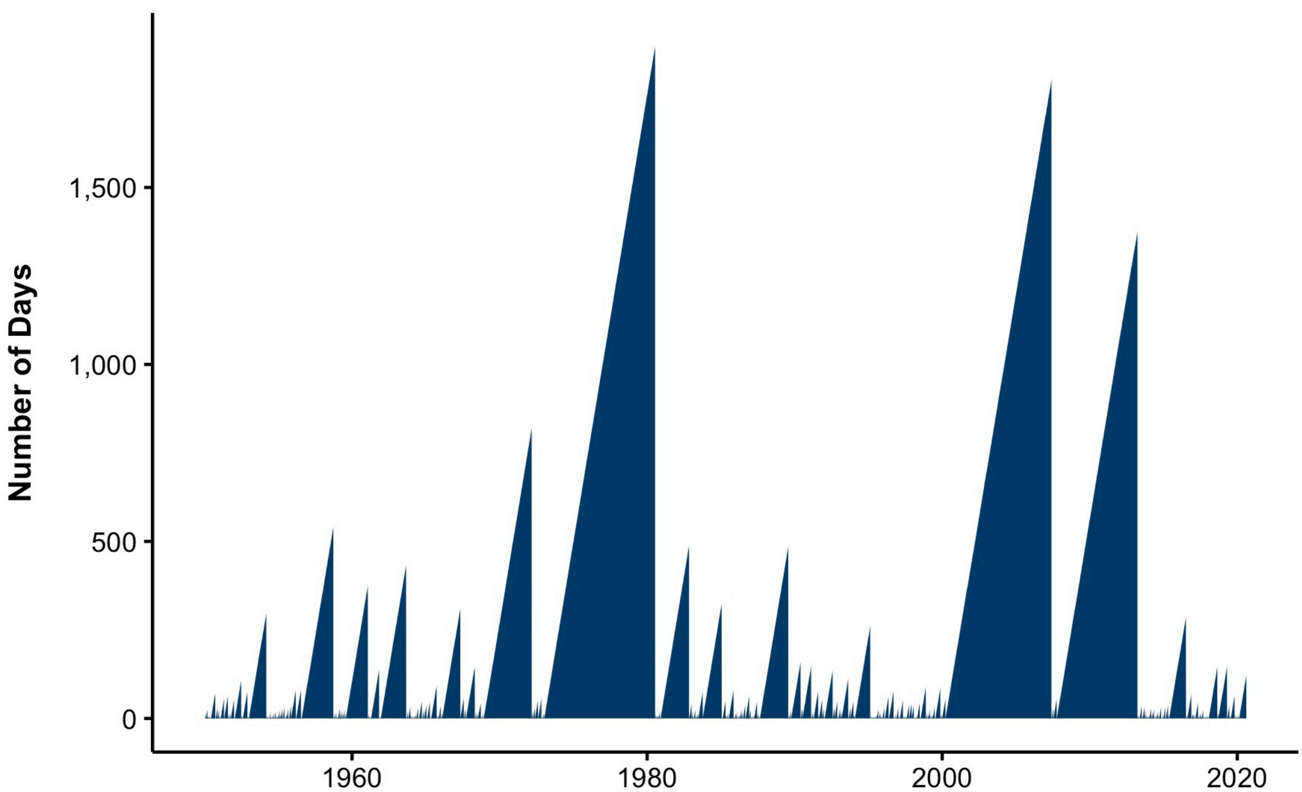
Now, your friend asks you, “What happens to the stock market?”

There are a million different answers you could give, but not a single one of them would include the words “all-time high.”

It took just 126 days to get here, and by here, I mean to levels never seen before. For context, the median number of days between all-time highs for the S&P 500® Index is 90.

This is a horrible year by most measures, and yet fairly run of the mill for the stock market, at least using this metric.

S&P 500® INDEX—NUMBER OF DAYS BETWEEN ALL-TIME HIGHS



Past performance is not indicative of future results. Source: YCharts. Author’s calculations.

I see it, but I don’t believe it.

S&P 500® INDEX LEVEL

Past performance is not indicative of future results. Source: YCharts. As of 8/12/20.

If you're feeling uneasy right now, that "this doesn't make any sense," you're not alone.

"Should I take profits?" "Are stocks priced to perfection?" "Should I buy back at lower levels?" These are normal questions to ask right now, and always. Investors always ask themselves these questions at all-time highs. I hate to be the bearer of good news, but the data makes a pretty compelling case why you should not do any of these things.

Looking out over one- and three-month periods, stocks actually do show worse returns on average after hitting an all-time high, versus all other days. So, if you're a short-term trader, then maybe it does make sense to lock in gains, as long as you're using a tax-deferred vehicle. Probably not, but maybe.

If you're not a short-term trader, then you'll see that all-time highs are nothing to fear. Returns are actually higher six, 12, and 24 months out. This isn't a shocking revelation. Rising prices attracts buyers, it's that simple.

S&P 500® Index	1 Month	3 Months	6 Months	12 Months	24 Months
All other days	0.71%	2.06%	4.27%	8.68%	17.86%
All-time high	0.32%	1.84%	4.55%	9.74%	18.42%

Past performance is not indicative of future results. Source: YCharts. Author's calculations, price only.

It's important to understand base rates, but it's also important to understand that averages only tell you what happened, on average. The fastest bear market ever came directly after an all-time high. All-time highs are not an all-clear signal—no such thing exists. But, neither are they a sign that the rug is about to be pulled.

2020, wow. Just wow.

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