THIS IS WHY YOU STAY THE COURSE

VIRTUS INVESTMENT PARTNERS

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A WEALTH OF COMMON SENSE
JUNE 13, 2023

Last year was one of the worst years ever for financial markets.

Call it recency or loss aversion or some other bias, but for some reason, our brains are hard-wired to assume big losses will be followed by additional losses (just like we assume big gains will be followed by additional gains).[1]

The thing about big losses in the stock market is that sometimes they are followed by big losses…but sometimes they're followed by big gains.

Just look at every double-digit down year for the S&P 500® Index going back to 1928 along with the ensuing returns in the following year.

Historically, after a bad year, you're looking at feast or famine. You either got a huge rally or further soul-crushing losses.

S&P 500® INDEX WORST YEARS

Year	Bad Year	Next Year
1930	-25.1%	-43.8%
1931	-43.8%	-8.6%
1937	-35.3%	29.3%
1940	-10.7%	-12.8%
1941	-12.8%	19.2%
1957	-10.5%	43.7%
1973	-14.3%	-25.9%
1974	-25.9%	37.0%
2001	-11.9%	-22.0%
2002	-22.0%	28.4%
2008	-36.6%	25.9%
2022	-18.0%	???

Past performance is not indicative of future results. Source: Returns 2.0.

It was not a foregone conclusion that stocks would rally this year as much as they have — the S&P 500 is up almost 14%, while the Nasdaq 100 has gained nearly 27% this year. It could have gotten worse if inflation stayed high, or the Fed broke something, or we went into a recession, or some other risk came out of left field.

Regardless of the outcome, this is a good lesson in the power of staying the course as an investor. And I believe staying the course was the right move whether stocks cratered even more or took off like a rocket ship.

Why?

What's the alternative? Guess what will happen next? Good luck with that.

Even the pros have no idea what will happen next in the market.

Heading into the year, Sam Ro published a list of S&P 500 year-end price targets from 16 of the biggest Wall Street firms.

The S&P 500 ended 2022 at around 3,840 so there were a handful of strategists who expected mild losses in 2023 while most were expecting mild gains.

It makes sense that Wall Street was tepid coming into the year considering the stock market fell almost 20% in 2022.

We're only halfway through the year so it's still a little early to offer a full report card for these predictions, but the stock market has outperformed expectations based on where we sit today.

Wall Street Firm	S&P 500 Estimate
Barclays	3,675
SocGen	3,800
Capital Economics	3,800
Morgan Stanley	3,900
UBS	3,900
Citigroup	3,900
Bank of America	4,000
Goldman Sachs	4,000
HSBC	4,000
Credit Suisse	4,050
RBC	4,100
JP Morgan	4,200
Jeffries	4,200
BMO	4,300
Wells Fargo	4,300
Deutsche Bank	4,500

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

[1]This is not all of us, of course. There are always going to be contrarians who go against the grain.

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As of this writing, the S&P 500 is trading at roughly 4,370.

So, the stock market has already gone up more than any of these strategists, save for Deutsche Bank, predicted for the whole year.

But they're not waiting around to see if those original forecasts could come true. Now that stocks are up double-digits for the year, many strategists are revising their forecasts higher.

Wall Street strategists get pessimistic when stocks are falling and optimistic when stocks are rising. I don't share this with you to poke fun at Wall Street.

The point of this exercise is to prove how difficult it is to make predictions about the future, especially as it relates to short-term movements in the stock market.

When stocks fall, our emotions make us think they will fall even further. And when stock rise, our emotions make us believe they are going to rise even more.

This is why I'm such a big proponent of having an investment plan that you can stick with through a wide range of market and economic environments.

Staying the course means going against your own emotions at times.

Staying the course means thinking and acting for the long term, even when it doesn't feel right in the short term.

Staying the course means preparing, not predicting.

Staying the course means doing nothing when that's what your plan calls for.

Unfortunately, doing nothing is hard work because markets are constantly tempting you to make changes to your portfolio.

There's an old parable about a locksmith who had a tough time picking locks when he was just a lowly apprentice learning on the job. He would have to use all sorts of tools and it took him a long time to open doors when people locked themselves out of their cars or homes. But people saw him sweating it out, and the effort was evident, so they tipped him quite well.

But as he slowly but surely learned the tricks of the trade, he was able to pick locks more quickly, with much less effort. The problem is his tips went down because he got people into their vehicles or houses much faster. He made it look too easy.

There is a good investing lesson in this story.

Intelligent investors realize effort is often inversely related to results in the market. Just because you do more or try harder doesn't guarantee better results. In fact, doing more is more often than not damaging to your investment performance.

Doing less or doing nothing at all most of the time is the right way forward for the majority of investors.

This is why you stay the course.

To learn more, please contact us at 800-243-4361 or visit virtus.com.

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 **Nasdaq-100®** includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

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