WHAT COMES AFTER A GOOD YEAR IN THE STOCK MARKET?

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2023 was a good year for the stock market.

Bad years in the stock market have typically been followed by good years (but not always).

THE 10 WORST YEARS FOR THE U.S. STOCK MARKET SINCE 1928

Year	S&P 500	Reason	Next Year
1931	-43.8%	Great Depression	-8.6%
2008	-36.6%	Great Financial Crisis	25.9%
1937	-35.3%	1937 Crash	29.3%
1974	-25.9%	1973-74 Bear Market	37.0%
1930	-25.1%	Great Depression	-43.8%
2002	-22.0%	Dot-Com Crash	28.4%
2022	-18.1%	The Great Inflation	26.3%
1973	-14.3%	1973-74 Bear Market	-25.9%
1941	-12.8%	WWII	19.2%
2001	-11.9%	Dot-Com Crash	-22.0%

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

The obvious follow-up here is: What happens after good years? Or, how often do we see good years followed by good years?

There are, of course, bad years that have followed good years, just like there have been good years that followed bad years. Here are all of the down years following a double-digit up year since 1928 for the S&P 500® Index.

S&P 500® INDEX BAD YEARS AFTER GOOD YEARS

1928	43.81%	1968	10.81%
1929	-8.30%	1969	-8.24%
1933	49.98%	1972	18.76%
1934	-1.19%	1973	-14.31%
1936	31.94%	1976	23.83%
1937	-35.34%	1977	-6.98%
1938	29.28%	1980	31.74%
1939	-1.10%	1981	-4.70%
1945	35.82%	1989	31.48%
1946	-8.43%	1990	-3.06%
1952	18.15%	1999	20.89%
1953	-1.21%	2000	-9.03%
1961	26.64%	2017	21.61%
1962	-8.81%	2018	-4.23%
1965	12.40%	2021	28.47%
1966	-9.97%	2022	-18.01%

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

This happened as recently as 2022, following the blowout year in 2021.

Human psychology causes many of us to constantly worry something bad has to happen after something good happens.

The gains can't last.

All of the good news is priced in.

The easy money has been made.

Stocks are priced for perfection, yada, yada, yada.

That could be the case this time around. Maybe the market has gotten ahead of itself. Maybe stocks have already priced in a soft landing and multiple Fed rate cuts in 2024.

The good times never last forever, so it's reasonable for investors to consider downside risks after things go well.

It's also important to remember that the good times can last longer than you think.

It's hard to imagine the stock market could follow 2023 with another big gain, considering the S&P 500 gained more than 26% last year.

But good years have tended to cluster in the stock market.

I looked back at the annual returns for the S&P 500 since 1928 to find times when big gains were followed by more big gains.

It happens more often than you think.

Here are the double-digit up years that were followed by double-digit up years.

I found 15 separate clusters spanning 40 years in total. That's more than 40% of the time.

You don't have to go too far back in stock market history to find a time when we had a string of good years in a row. The 2019-2021 stretch was pretty darn good with +31%, +18%, and +28% back-to-back-to-back.

GOOD YEARS IN THE S&P 500® INDEX HAVE TENDED TO CLUSTER

1935	46.74%	1971	14.22%	1995	37.20%
1936	31.94%	1972	18.76%	1996	22.68%
				1997	33.10%
1942	19.17%	1975	37.00%	1998	28.34%
1943	25.06%	1976	23.83%	1999	20.89%
1944	19.03%				
1945	35.82%	1979	18.52%	2009	25.94%
		1980	31.74%	2010	14.82%
1949	18.30%				
1950	30.81%	1982	20.42%	2012	15.89%
1951	23.68%	1983	22.34%	2013	32.15%
1952	18.15%			2014	13.52%
		1985	31.24%		
1954	52.56%	1986	18.49%	2016	11.77%
1955	32.60%			2017	21.61%
1964	16.42%	1988	16.54%		
		1989	31.48%	2019	31.21%
				2020	18.02%
				2021	28.47%

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Of course, that stretch was followed by the terrible 2022 performance.

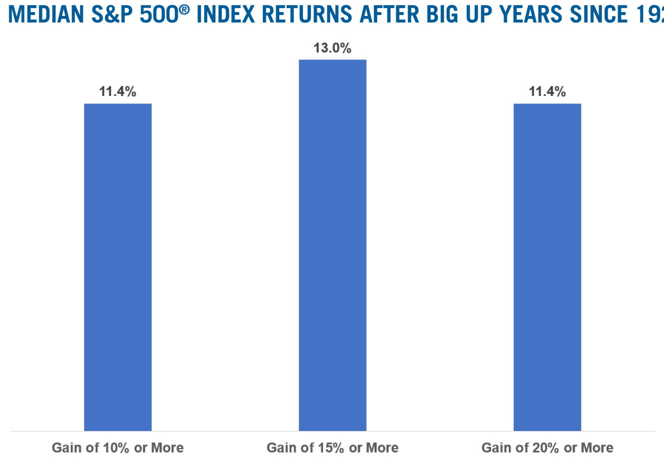
The ramp-up to the dot-com bubble from 1995-1999 was an all-time run with five years in a row of 20%+ gains, but there have been plenty of periods where good years bunch up.

There were four year runs of good results from 1942-1945 and 1949-1952. We had pretty good returns from 2012-2014 as well.

These are the median returns for the S&P 500 in the ensuing year following gains of 10% or more, 15% or more, and 20% or more.

There were gains 70% of the time following 10%+ gains, 70% of the time following 15%+ gains, and 65% of the time following 20%+ gains.

MEDIAN S&P 500® INDEX RETURNS AFTER BIG UP YEARS SINCE 1928



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

All of which is to say, there's not much you can glean from 2023 returns if you're looking for some sort of pattern.

Many times good returns are followed by good returns, but sometimes good returns are followed by losses.

This is what makes investing in the stock market equal parts exhilarating and infuriating, especially in the short run.

How about long-run returns?

The median 10-year total returns following 10%+, 15%+, and 20%+ up years were +173%, +234%, and +188%, respectively, over the past 95 years.[1]

Long-run returns are the only ones that matter, but short-run returns get all of the attention.

Wise investors focus on the long run and avoid allowing the short run to dictate investment decisions.

[1]That was annual returns of 11%, 13% and 11%, respectively.