JUNE 2020 CLIENT QUESTION OF THE MONTH: DIRE MARKET PREDICTIONS

Andrew Murphy, CFA
Senior Director, Portfolio Management

As a wealth management firm we are inundated with a never ending flow of predictions about what is going to happen in the markets. Just last week we received a letter from a firm who claimed they could "mathematically predict the stock market, in both price and time, with astonishing accuracy" (spoiler alert: they can't). We also understand that our clients are not isolated from the constant barrage of news, noise, and prognostications. We often have conversations with our clients regarding a so-called expert's prediction on an upcoming market crash. In today's 24-hour news environment, with several financial television stations, radio networks, and countless publications, there is always someone willing to offer a gloom-and-doom outlook. Keep in mind that the media outlets are not paid to provide sound financial advice and negativity sells. Also remember that **market risks are constant** and that **volatility can create opportunities**. The key to successful long-term investing is managing risk by identifying and reacting to those that matter and not overreacting to those that do not.

Given the market volatility over the last several weeks, dismal market forecasters have been everywhere. Every time the market experiences a pullback there is a rush from certain market participants to proclaim that the drop is the start of the next great bear market (some of these experts have been predicting the same thing for years and even decades). We constantly remind our clients to maintain a long-term viewpoint as markets can be extremely volatile in the short term. Since 1928 the S&P 500 has generated a total annualized of return of +9.5% despite averaging a decline of nearly-16% at some point each year. As stock market investors, volatility and declines are the prices we pay for excess return over the risk-free rate. The risk-free interest rate is defined as the return of an investment with no risk of financial loss. US Treasury Bills are typically used as the risk-free rate as their principal repayments are backed by the US government. Would an investor put their money in stocks if they could produce a similar return by investing in Treasury Bills? No, they wouldn't. Investors need to be compensated for the greater risk of investing in stocks over Treasury Bills. Over the last sixty years the S&P 500 has averaged an excess return over Treasuries of about 7% per year. Investors who understand the trade-off between risk and return will generate better long-term results than someone who panics at the first sign of inevitable volatility. *Please see our* ***Winthrop Wealth Principles for Investing in the Stock Market.***

One of our favorite research pieces in recent months is called "The Armageddonists" from JP Morgan Asset Management. Armageddonists are defined as the "market-watchers, forecasters, and money managers whose apocalyptic comments spread like wildfire in print and online financial news." Over the period 2010-2019, JP Morgan collected predictions of market crashes and recessions from several notable investors and then calculated the result if an investor followed those predictions. This analysis was done before the covid-19 bear market that occurred earlier this year. In the future, there could easily be an update of this report with some of the recent grim forecasts.

The last decade was especially strong for the US equity market as the S&P 500 produced a total return of +256.4% (annualized return of +13.5% per year). An investment of $10,000 beginning in 2010 would have grown to $35,600. *See below for several dire market predictions during this period.

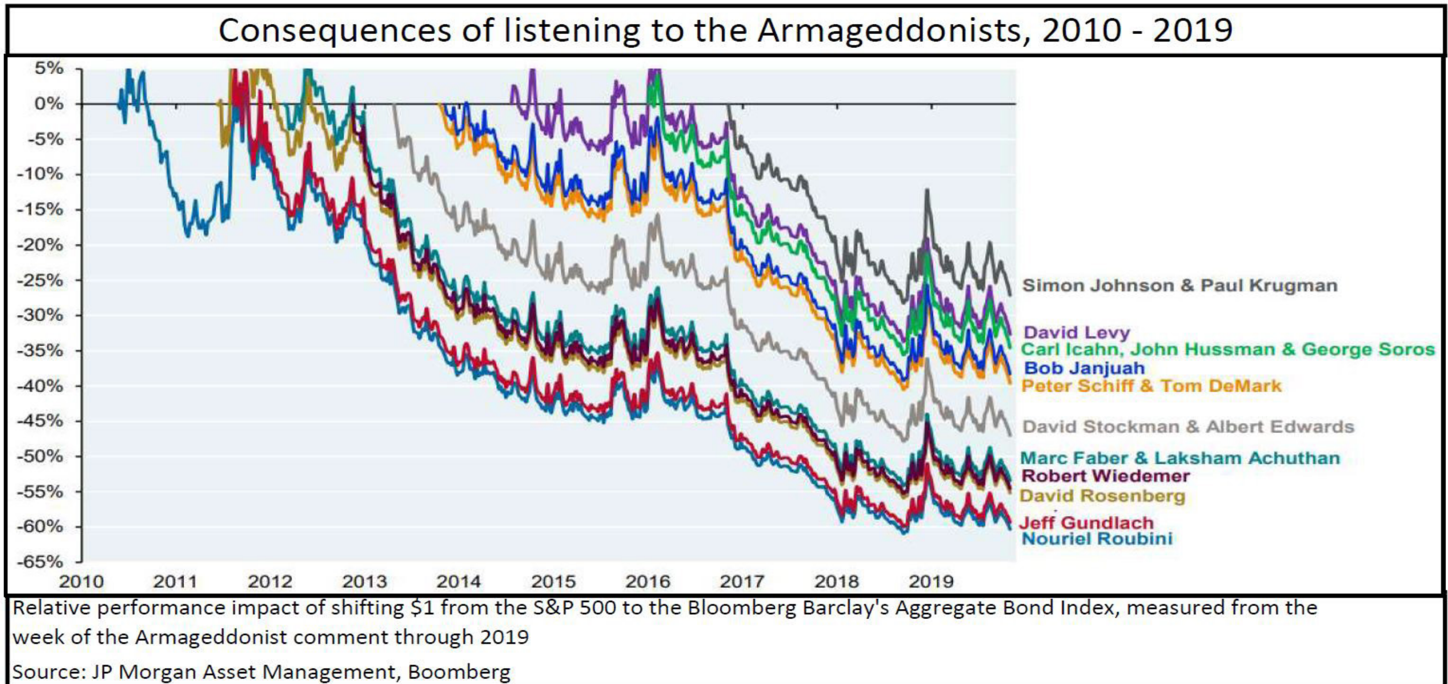
The following chart displays the opportunity cost of following those predictions, and assumes an investor switched their portfolio from 100% stocks to 100% bonds. Given the substantial return in the equity market over the last decade, an investor would have shot themselves in foot by listening to the Armageddonists and selling all of their stocks. We know that making sudden large adjustments to client portfolios is value destructive over time, and one of the key tenants of our investment philosophy is to never time the market. You can find our thoughts on market timing and the crushing impact it has on investor returns **here**.

[1]*Cembalest, M. (2019). Eye on the Market: The Armageddonists. JP Morgan Asset Management*

Securities offered through LPL Financial. Member FINRA/SIPC. Investment Advice offered through Winthrop Wealth, a Registered Investment Advisor and separate entity from LPL Financial.

JUNE 2020 CLIENT QUESTION OF THE MONTH: DIRE MARKET PREDICTIONS

Andrew Murphy, CFA
Senior Director, Portfolio Management



Relative performance impact of shifting $1 from the S&P 500 to the Bloomberg Barclay's Aggregate Bond Index, measured from the week of the Armageddonist comment through 2019

Source: JP Morgan Asset Management, Boomberg

We know that the United States is currently in a recession and suffered its first bear market in over a decade when the S&P 500 fell by nearly-34% from February 19th to March 23rd. However, the recent dismal predictions only worked for a short amount of time as the market rebounded by over +36% from March 23rd to the end of May. A taxable investor who sold their securities in February or March likely would have generated large capital gains and then missed the subsequent rebound. Given that the stock market rises over time and declines don't last forever (bull markets have historically lasted longer than bear markets), we suspect that in the future there will be more bad market predictions than good ones. We typically offer the following advice in response to a dreadful market forecast:

- **Be a little bit skeptical**: an extreme market prediction like an upcoming crash or severe recession can often be designed to draw attention to the person making the forecast and/or their firm. The bold prediction is designed to sell you something and really boils down to, "the market might go down and the best thing you can do is buy my product." The person making the prediction often has an agenda and is looking to further their own self interest.

- **Be aware of moving goalposts**: We often see the initial prediction but miss the follow up later that completely negates the original. Predictions constantly change. The investment phrase, "if you must forecast, forecast often" exists for a reason.

- **Understand the person and the data**: Anyone can make a bold market prediction. Consider the qualifications of the person, the data behind the prediction, and their past track record before considering to take action.

At Winthrop Wealth, we apply a total net worth approach to both comprehensive financial planning and investment management. Financial planning drives the investment strategy and provides a road-map to each client's unique goals and objectives. The comprehensive financial plan defines cash flow needs, is stress tested for various market environments, optimizes account structures, considers tax minimization strategies, and continuously evaluates financial risks as circumstances and/or goals change. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection.

As always, please contact us if you have any questions or updates to your personal or financial circumstances.

Securities offered through LPL Financial. Member FINRA/SIPC. Investment Advice offered through Winthrop Wealth, a Registered Investment Advisor and separate entity from LPL Financial.

JUNE 2020 CLIENT QUESTION OF THE MONTH: DIRE MARKET PREDICTIONS

Andrew Murphy, CFA
Senior Director, Portfolio Management

May 20, 2010 Nouriel Roubini "There are some parts of the global economy that are now at the risk of a double-dip recession. From here on I see things getting worse." - CBS

June 4, 2011 David Rosenberg "Another recession is coming, and soon. So says Gluskin Sheff economic David Rosenberg. Rosenberg, a longtime bear on the economy and the stock market, now says he is 99% sure we will have another recession by the end of next year." - Fortune

August 9, 2011 Jeff Gundlach "It seems suicidal to buy a broad-based basket of stocks or economically sensitive commodities or emerging markets stocks- all of which are very levered to economic growth." - Kiplinger
"Sell everything. Nothing here looks good. The stock markets should be down massively, but investors seem to have been hypnotized that nothing can go wrong." July 2016. - Reuters

February 24, 2012 Lakshman Achuthan "Lakshman Achuthan, co-founder of the Economic Cycle Research Institute, said on Friday that his research firm is sticking with the forecast if made in September: A new recession is inevitable, despite improvement in high-profile economic indicators, such as job created and unemployment, and a stock market rally. Achuthan said data gathered since his September forecast only confirms his view that economic growth has slowed to such a degree that a downturn is now unavoidable, likely by late summer." - CNN

May 25, 2012 Marc Faber "I think we could have a global recession either in Q4 or early 2013. That's a distinct possibility." When asked what were the odds, Faber replied, "100%." - CNBC

November 12, 2012 Robert Wiedemer "The data is clear, 50% unemployment, a 90% stock market drop, and 100% annual inflation starting in 2013." - Newsmax

March 31, 2013 David Stockman "When the latest bubble pops, there will be nothing to stop the collapse. If this sounds like advice to get out of the markets and hide out in cash, it is." - Business Insider

April 25, 2013 Albert Edwards "We repeat our key forecasts of the S&P Composite to bottom around 450 (-70%), accompanied by sub 1% US ten year yields." - CNBC

May 30, 2013 Peter Schiff "We've got a much bigger collapse coming. I am 100% confident that the crisis that we're going to have will be much worse than the one we had in 2008." - Marketwatch
"The crisis is imminent, I don't think Obama is going to finish his second term without the bottom dropping out. And stock market investors are oblivious to the problems." - Money Morning

October 15, 2013 Tom DeMark "DeMark's Dow Jones Index chart covering the period from May 2012 to the present seems to be tracking, almost precisely, the months leading up to the 1929 stock market crash. The market's going to have one more rally, then once we get above that high, I think it's going to be more treacherous. I think it's all preordained right now." - Bloomberg

November 6, 2013 Bob Janjuah "We see a significant risk-on top before giving way, over the last three quarters of 2014 through 2015, to what could be a 25%-50% sell-off in global stock markets." - Marketwatch

July 24, 2014 David Levy "David Levy says the United States is likely to fall into a recession next year, triggered by downturns in other countries, for the first time in modern history. "The recession for the rest of the world…will be worse than the last one," says Mr. Levy, whose grandfather called the 1929 stock market crash. Mr. Levy predicts a US recession will throw its housing recovery in reverse, and push home prices below the low in the last recession. He says panicked investors are likely to dump stocks and flood into US Treasuries, a haven in troubled times, like never before." - The Independent

September 29, 2015 Carl Icahn "I see real tremendous problems ahead and I don't think we are handling it right and nobody really wants to talk [it] out. We are headed toward a strong correction and possibly a complete meltdown but not systemic like 2008. It won't threaten the system, it's just going to threaten your livelihood and net worth. I do think you are in a very massive bubble and when it bursts it isn't going to be pretty, it could be a blood bath." - Forbes

January 7, 2016 George Soros "Global markets are facing a crisis and investors need to be very cautious, billionaire George Soros told an economic forum in Sri Lanka on Thursday. "China has a major adjustment problem," Soros said. "I would say it amounts to a crisis. When I look at the financial markets there is a serious challenge which reminds me of the crisis we had in 2008." - Bloomberg

January 18, 2016 John Hussman "A broad range of other leading measures, joined by the deterioration in market action, point to the same conclusion that recession is now the dominant likelihood." - Hussman Funds

Securities offered through LPL Financial. Member FINRA/SIPC. Investment Advice offered through Winthrop Wealth, a Registered Investment Advisor and separate entity from LPL Financial.

Andrew Murphy, CFA
Senior Director, Portfolio Management

DISCLOSURES:

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

Likewise, it is important to remember that no investment strategy assures success or protects against loss. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Rebalancing a portfolio may cause you to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss. All investing involves risk which you should be prepared to bear.

Securities offered through LPL Financial. Member FINRA/SIPC. Investment Advice offered through Winthrop Wealth, a Registered Investment Advisor and separate entity from LPL Financial.