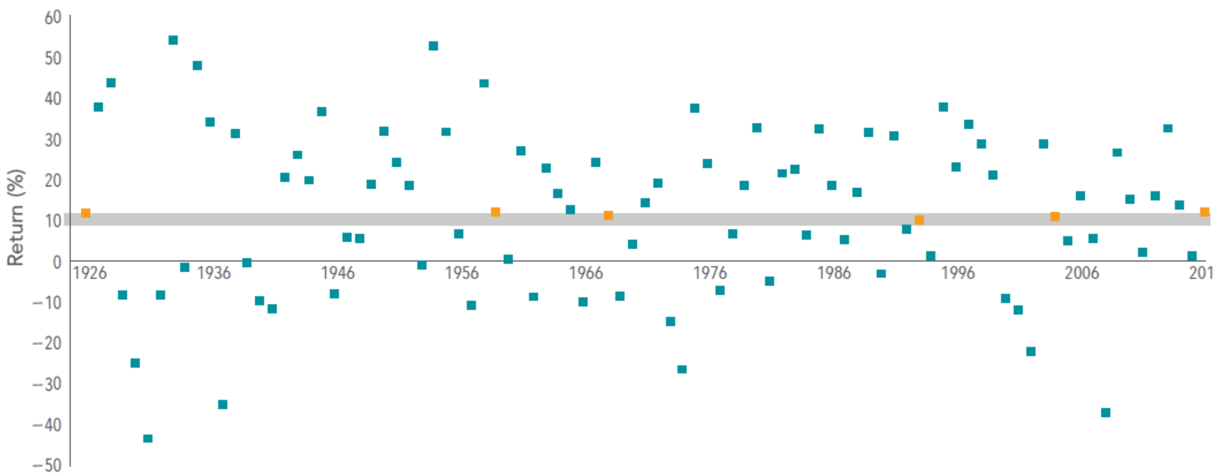
Patience Pays Off

When it comes to investment returns, we often make the comparison to the historical average return to gauge how markets are performing. Yet when you examine the data, it is uncommon for an annual return to match a historic average return. For example, since 1926 the S&P 500 Index has an average annual return of 10%, however during that time period only six of the 91 calendar years have returns between +/- 2 percentage points of that average:

Exhibit 1: S&P 500 Index Annual Returns, *1926–2016*



In US dollars. The S&P data are provided by Standard & Poor's Index Services Group. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Index returns do not reflect the cost associated with an actual investment.

It is often helpful to realize these historical outcomes when establishing an investment philosophy. Even with yearly uncertainty in the market, investors can still expect positive outcome by turning their focus toward long-term performance. We see this in the data when examining rolling periods of performance:

Exhibit 2: Frequency of Positive Returns in the S&P 500 Index, *Overlapping Periods: 1926–2016*

From January 1926–December 2016 there are 913 overlapping 15-year periods, 973 overlapping 10-year periods, 1,033 overlapping 5-year periods, and 1,081 overlapping 1-year periods. The first period starts in January 1926, the second period starts in February 1926, the third in March 1926, and so on. In US dollars. The S&P data are provided by Standard & Poor's Index Services Group. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not an indication of future results.

These statistics are important to understand when entering the world of investing. Every year may not bring about the returns that you were hoping for, but knowing the range of potential outcomes can help investors stick to their investment philosophy and focus on the long term. Those that are able to control their emotions and remain disciplined will be rewarded for their patience with increased odds of a successful investment experience.

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