Quarterly Market Review: 2020-Q3

For ClearLogic Financial

Equity markets around the globe posted positive returns in the third quarter. Looking at broad market indices, emerging markets equities outperformed US and non-US developed markets for the quarter. Value underperformed growth across regions. Small caps outperformed large caps in non-US developed and emerging markets but underperformed in the US. REIT indices underperformed equity market indices in both the US and non-US developed markets.

The first chart is a snapshot of the market performance for the third quarter. The second chart shows the world markets and events over the last twelve (12) months. Your 2020 third quarter portfolio review report is posted in the ModestSpark portal.

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
3Q 2020	STOCKS				BONDS	
	9.21%	4.92%	9.56%	2.37%	0.62%	0.68%
Since Jan. 2001						
Avg. Quarterly Return	2.1%	1.4%	2.8%	2.3%	1.2%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	2009 Q2	2009 Q2	2009 Q3	2001 Q3	2008 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-3.0%	-2.7%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4	2016 Q4	2015 Q2

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

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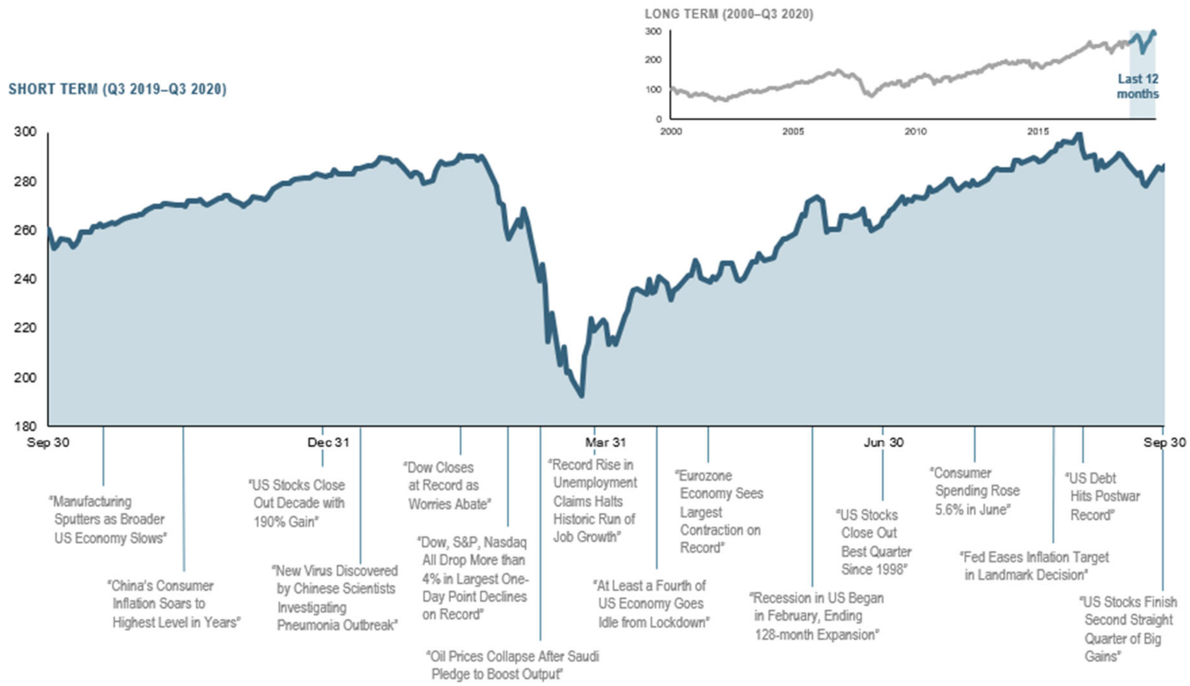
Past performance may not be indicative of future results. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns.

All investing involves risk, including the potential for loss of principal. There is no guarantee that any investment plan or strategy will be successful.

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

Taking Stock of Lump-Sum Investing vs. Dollar-Cost Averaging

Some investors favor a ***dollar-cost averaging (DCA)*** approach to deploying their investment capital. Unlike ***lump-sum investing***, in which the full amount of available capital is invested up front, DCA spreads out investment contributions using installments over time. The appeal of DCA is the perception that it helps investors "diversify" the cost of entry into the market, buying shares at prices that fall somewhere between the highs and lows of a fluctuating market. So what are the implications of DCA for investors aiming to generate long-term wealth?

ENTRY LEVEL

Let's take the hypothetical example of an investor with $12,000 in cash earmarked for investment in stocks. Instead of buying $12,000 in stocks today, an investor going the DCA route buys $1,000 worth of stocks each month for the next 12 months. If the market increases in value each month during this period, the DCA investor will pay a higher price on average than if investing all up front. If the market decreases steadily over the next 12 months, the opposite will be true.

While investors may focus on the prices paid for these installments, it's important to remember that, unlike with the lump-sum approach, a meaningful portion of the investor's capital is remaining in cash rather than gaining exposure to the stock market. During the process of capital deployment in this hypothetical example, half of the investable assets on average are forfeiting the higher expected returns of the stock market. For investors with the goal of accumulating wealth, this is potentially a big opportunity cost.

Despite the drawbacks of dollar-cost averaging, some may be hesitant to plunk down all their investable money at once. If markets have recently hit all-time highs, investors may wonder whether they have already missed the best returns and so ought to wait for a pullback before getting into the market. Conversely, if stocks have just fallen and news reports suggest more declines could be on the way, some investors might take that as a signal waiting to buy is the wiser course. Driving the similar reactions to these very different scenarios is one fear: what if I make an investment today and the price goes down tomorrow?

Exhibit 1 puts those fears in a broader context. It shows the average annualized compound returns of the S&P 500 from 1926–2019. After the index has hit all-time highs, the subsequent one-, three-, and five-year returns are positive, on average. After the S&P 500 has fallen more than 10%, the subsequent one-, three-, and five-year returns are also positive, on average. Both data sets show returns that outperform those of one-month Treasury bills. Overall, the data do not support that recent market performance should influence the timing of investing in stocks.

EXHIBIT 1

Highs and Lows

Average annualized compound returns after market highs and declines, 1926–2019

		Forward Period		
		1 Year	3 Years	5 Years
After New Market Highs	S&P 500	13.9%	10.5%	9.9%
	One-Month US Treasury Bill	3.9%	4.1%	4.1%
After Market Decline of More than 10%	S&P 500	11.3%	10.2%	9.6%
	One-Month US Treasury Bill	1.9%	2.0%	2.0%

Past performance is not a guarantee of future results.

DIFFERENT STROKES

Both theory and data suggest that lump-sum investing is the more efficient approach to building wealth over time. But dollar-cost averaging may be a reasonable strategy for investors who might otherwise decide to stay out of the market altogether due to fears of a large downturn after investing a lump sum.

The stock market has offered a high average return historically, and it can be an important ally in helping investors reach their goals. Getting capital into stocks, whether gradually or all at once, puts the holder in position to reap the potential benefits. What's clear is that markets have rewarded investors over time. Whichever method one pursues, the goal is the same: developing a plan and sticking with it.