Going the Distance: What Running Can Teach Us About Investing

CETERA® INVESTMENT MANAGEMENT

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Few things feel more invigorating than an early morning breeze during a run or brisk walk.* It truly is a breath of fresh air when a cool draft sweeps down your path as your heart rate increases and sweat builds up. Sure, running gets difficult as the pace picks up, but finishing a tough workout feels rewarding. To celebrate **Global Running Day** on June 2, we will explore the investing lessons we can learn from this vitalizing sport. Life is a marathon, after all, and long-distance running and long-term investing have many parallels.

Finding Your Stride

Eliud Kipchoge is the greatest marathon runner of all time. Most notably, Kipchoge accomplished the unthinkable in 2019 when he became the only person ever to run a marathon (26.2 miles) in under two hours. At a blistering pace of four minutes and 34 seconds per mile, Kipchoge's marathon speed is a sprint for us mortals, yet he can maintain his world-class cadence for two hours. All eyes will be on the Kenyan marathoner this summer to see if he is able to set a new world record at the Tokyo Olympics.

Though Kipchoge and other elite marathon runners are exceptions, most marathon participants run the course at a far more subdued pace. Each runner must find their stride. If you go out too fast, you will burn too much energy and risk dropping out of the race. If you start too slow, you risk not reaching your target time and could even get taken off the course due to time limits.

For a long-term investor, the same tradeoff applies. Not all investors can handle steep drawdowns during volatile market periods. If an investor starts out too aggressively for their risk tolerance, they risk dropping out of the market during a period of high volatility. It's important to ensure your investment allocation aligns with your risk tolerance. Moreover, if a portfolio is too conservative, it might not reach long-term investment goals because the return potential is lower. For an investor, it's about finding the right balance between stocks and bonds in a portfolio that's concordant with their risk tolerance and long-term goals—and appropriate to meet their long-term needs.

*Though hitting that snooze button one more time is a pretty close second.

Watch Out for Headwinds

There are several obstacles that can slow runners down, like humidity and high temperatures, hilly terrain, nagging injuries and, of course,** headwinds. It's estimated that a headwind of 10 miles per hour will reduce a runner's pace by roughly 10 to 20 seconds per mile. A headwind of 20 miles per hour can reduce the pace by up to one minute per mile. That adds up over longer distances.

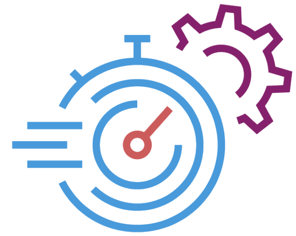
Many obstacles exist in investing as well, but inflation is the most akin to a headwind. Over time, inflation reduces purchasing power. If you received a $100 bill on your birthday in 1990 and left it in your piggy bank, its purchasing power would be reduced by more than half because of inflation. Put another way, if the $100 bill grew at the same rate as the Consumer Price Index (CPI), which is a proxy for overall inflation, it would be worth more than $200 today. Inflation averaged around 2.5% per year over that stretch. It doesn't seem like much, but the compounding effect adds up over time. That's why it's important to assess investment returns on an inflation-adjusted basis.

If a low-yielding investment generated a return of 0.5%, but inflation is 2%, the real return, adjusted for inflation, is -1.5%. Likewise, if an investment returned 5%, the real return is 3%, providing a positive inflation-adjusted return. In today's low interest-rate environment, many bond and cash-equivalent asset classes—including money market accounts, short-term bonds, and cash savings accounts—offer yields that are barely positive before adjusting for inflation. Inflationary pressures are heating up because of supply constraints caused by the pandemic. While this could be temporary, inflation will likely be higher in 2021 than what's been seen in recent years. In other words, inflationary headwinds are picking up.

Mix It Up

There are a variety of workouts used when training for a long-distance race. Higher-mileage runs at a slower pace help increase injury resistance and condition the lungs and heart for endurance. Shorter-distance sprinting intervals help improve speed. Race-pace tempo runs combine speed and endurance to prepare for race-day conditions.

**…the comfort of the couch.



Run for Your Life

Contrary to scenes in, well, almost any movie, you don't have to be running from or to anything for it to be good for your health and longevity. As with so much in life, if you're in the running, you're already winning.

Healthier: Running just 5 to 10 minutes a day at slow speeds (under 6 miles per hour) is associated with markedly reduced risks of death and especially cardiovascular disease.[1]

Wealthier: While running is a relatively inexpensive sport, it attracts wealthier people. Half of U.S. marathon runners have income of at least $100,000.[2] This is high compared to the general population, as only 50% have a household income of over $75,000. The higher income level is seen across different race lengths, not just marathons.

Wiser: Looking at 5K races in the United States, nearly 80% of participants are college educated.[3] This is high compared to the general population, as only about 35% have a college degree.

Getting Older: Runners participating in running events have never been older. The average age was 35.2 years old in 1986 and 39.3 years old in 2018.[4]

Getting Slower: Maybe it's the age, maybe it's the weight of all their college-gained knowledge, but runners are getting slower. The average marathon time has risen from 3 hours and 53 minutes in 1986 to 4 hours and 33 minutes in 2018.[4]

1 https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4131752/
2 https://www.26-2.org/marathon-center/demographics-trends/
3 https://www.5kevents.org/demographics.html
4 https://runrepeat.com/state-of-running

There are other types of workouts as well, such as the Swedish *fartlek*,*** or “speed play,” which mixes fast and slow intervals within a single run, but the bottom line is that a well-rounded training regimen can improve overall performance.

It’s also important to mix it up in investing. Adding variety to a portfolio is known as diversification, and it can improve investment results. Broadly speaking, a mix of U.S. stocks, international stocks, and bonds helps diversify the risk of any one component in a portfolio. Additionally, since each component isn’t perfectly correlated, returns can smooth out over the long run, because different asset classes can have varying performance in different environments.

- For more than a decade, U.S. equities have outperformed international equities. Since 2010, the S&P 500 has generated an annualized return of 14.7% (as of April 30, 2021, including dividends). Meanwhile, the returns of international developed stocks, as measured by the MSCI EAFE index, lagged quite a bit, gaining 6.6% annualized over that stretch. Emerging market equities (MSCI Emerging Market Index) returns have lagged even further behind at 5.6% annualized.
- It was a different story in the 10-year stretch between 2000 and 2009. The S&P 500 returned -1.0% annualized versus 1.6% for the MSCI EAFE index and 10.1% for the MSCI EM index over that decade.
- For U.S. equities, valuations are near their highest level since 2000, and most valuation metrics for international indices are at a discount versus U.S. markets.

It might be a good time to reexamine the global diversification of your portfolio. Likewise, assessing the overall allocation to bonds is prudent, following the sizeable outperformance of equities since the bottom in stock prices last March. It’s important to maintain a stock/bond ratio that’s appropriate for your risk tolerance. Your Cetera financial professional can guide you on the very important topics of diversification and risk tolerance.

The Finish Line

We finally made it to the finish line! Investing and running both require mental toughness and a planned approach to hit your stride. If you run or invest long enough, you’re bound to hit a rough patch that will test you. Fortunately, there are ways to alleviate the pain and break through mental barriers. By focusing on the long term, finding your pace, having discipline, accounting for headwinds, and adding variety, you increase your chances of making it to the finish line. It also helps to have a coach to get to the next level, which is where your Cetera financial professional can be extremely valuable.

There are so many lessons we can learn from running that go beyond financial markets. If you’re up for a new fitness challenge, lace up and give running a try on Global Running Day (but as with any new exercise regimen, talk with your doctor first). From all of us at Cetera Investment Management, we hope to see you at the starting line on June 2!

This report was created by Cetera Investment Management LLC. For more insights and information from the team, follow @CeteraIM on Twitter.

***Nope. No chance we were touching that. Not sure how we should feel that you were expecting to see something down here, though. We’ve already discussed the criticality of headwinds, and tailwinds really aren’t a topic of concern.

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Glossary

The **S&P 500** 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 **MSCI Emerging Markets** index is designed to measure large cap and mid cap equity market performance in global emerging markets. The Index is market-capitalization weighted, covering 85% of the free float-adjusted market cap in each of 24 countries.

The **MSCI EAFE** is designed to measure large cap and mid cap equity market performance of 21 developed markets, including three regions (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted, covering 85% of the free float-adjusted market cap in each of the 21 countries.