CETERA® INVESTMENT MANAGEMENT

Trick or Treating on Wall Street : Beware of Count Stockula and the Bond Reaper

October 21, 2021

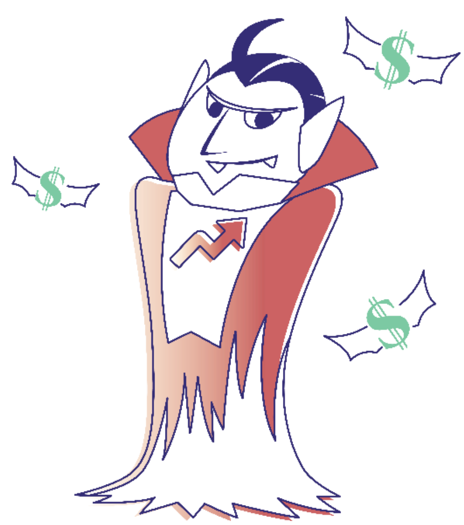
October 31 is right around the corner and it's time for a spooky Halloween adventure. Join Cetera Investment Management as we go trick-or-treating on Wall Street. With a pumpkin bag in tow, our hope is that plenty of candy (and strong market returns) await. But as the wind begins to howl, and dark clouds hang over the night sky, our worst fears, Count Stockula and the Bond Reaper, emerge from the darkness.

Count Stockula is known to appear when least expected and sink his teeth into stocks to drain away positive returns. The trip from Transylvania to lower Manhattan, as the bat flies, is no match for the Count. The Bond Reaper, while appearing less frequently, is known to cut away bond returns with a large scythe. In this commentary, we will face our worst market fears, but also dispel the need to be scared.

Are You Spooked by Stocks?

Beyond the dark shadows of the lower Manhattan skyline sits 11 Wall Street, home of the New York Stock Exchange. As we approach to grab some candy, we quickly become distracted by a bat flying through the building. We can only wonder, is it Count Stockula?

The most chilling market headlines tend to focus on stocks. We have all seen them; "Dow Down 1,000"* or "Panic on Wall Street!" There is no question that in the short run, stocks are susceptible to hair-raising volatility. While one of the best antidotes for vampires is a garlic necklace, for the market, it's a long-term mindset.



From 1980 to 2020, the average intra-year drawdown for the S&P 500 was 14% (JPMorgan Asset Management). The S&P 500 still managed to generate a positive total return in 34 of the 41 calendar years over that stretch. While equities have positive returns in most years, the threat of bear markets (20%+ decline) keeps many investors on edge. In last year's pandemic-induced bear market, the S&P 500 fell 34% from the peak on February 19 to the bottom on March 23. Mid and small cap indices declined even more during the horrifying 33-day selloff—a veritable Nightmare on Wall Street. For investors with a high concentration in equities, Count Stockula stuck his fangs in their portfolio and drained away a few years' worth of gains. Fortunately, the losses proved temporary, and the S&P 500 surpassed the pre-pandemic high less than five months after the bear market bottom.

How often do bear markets occur? There have been 13 bear markets in the post-WWII era, with an average decline of 32.5%. Seven of those bear markets had a decline of less than 30%. Severe bear markets (declines of roughly 50% or more) are frightening for even the most seasoned investors. The good news is that they are rare. In the last 75 years, there have been only three bear markets with declines exceeding 50% for the S&P 500. Count Stockula's reign of terror typically doesn't last long enough for declines to reach that level.

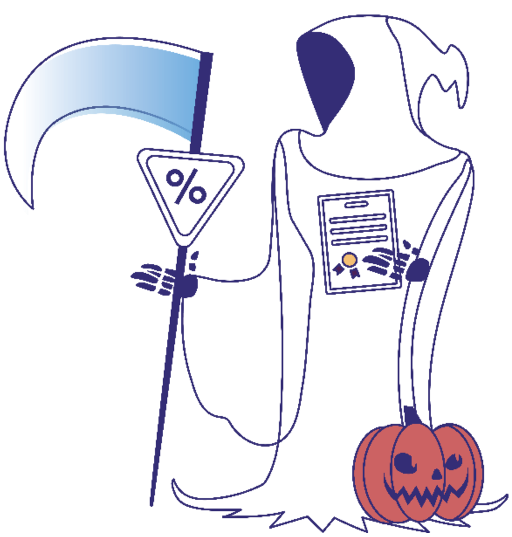
The stock market isn't so scary when you look at long-term returns. On any given day, it is essentially a coin flip whether the S&P 500 is positive (52% of the time). Since 1928, the S&P 500 had a positive total return 75% of the time over all rolling one-year periods, according to Bespoke Investment Group. That figure increases to 89% over rolling five-year periods, 94% over rolling 10-year periods, and 100% over rolling 20-year periods. It pays to have a long-term mindset. Literally.

Unnerving market headlines typically pop up several times a year, but don't be spooked by stocks! They are an important part of asset allocation. It is vital to understand their risks and to keep your stock allocation at an appropriate level based on your risk tolerance.

*The Dow Jones Industrial Average declined by 1,000 points or more seven times between February 24 and March 18 last year.

Are You Frightened by Fixed Income?

We managed to escape without encountering Count Stockula. We find ourselves at Trinity Church, the oldest church in Manhattan and the burial site of Alexander Hamilton, our nation's first secretary of the treasury. The dense Halloween fog permeating throughout the cemetery, combined with dead silence, quickly shifts our focus to the Bond Reaper.



It can be frightening to hold fixed-income securities with bond yields hovering near historically low levels. Driven by a flight to safety during the early part of the pandemic, bond yields went into free fall last year. The 10-year treasury yield bottomed at a historical low of only 0.5% last year and the yield as of mid-October is around 1.6%. For perspective, the historical low prior to last year was 1.36%. Even in a low-yield environment, it is unwise to fear fixed income. With bond yields at low levels, returns going forward will not match the strong returns of the last four decades.

It is important to keep in mind the main role bonds play in a portfolio, which is to diversify your portfolio and reduce risk. Bonds have a low level of volatility compared to stocks. In periods of market stress, bonds can reduce the downside risk of a portfolio, and often generate positive returns. The Bloomberg U.S. Aggregate bond index has produced a negative total return for a calendar year only three times since 1976, and in each case, the total return was no worse than -2.9%. Through mid-October, the aggregate bond index has a total year-to-date return of -2.1%. If the decline holds through year-end, this year will mark the fourth time in the last 46 years that the Bond Reaper cut bond returns down to negative territory for a calendar year.

Positively, the S&P 500 still has double digit year-to-date gains and the decline in bonds is relatively shallow. Moments of market stress, like in 2008, are where bonds can still add a lot of value. The S&P 500 declined 37% in 2008, but the aggregate bond index generated a total return of more than 5%. The stock market is known to produce its fair share of nightmares, but a diversified bond allocation shouldn't keep you up at night.

Don't Be Scared

There are several reasons why some investors may be spooked by stocks or frightened of fixed income. Spine-chilling volatility has always been part of investing, but over the long run, the market is typically a lot less scary. While the thought of losing money can be unnerving, keep in mind the opposite side of the equation-not investing enough and running out of assets before the Grim Reaper appears.

Count Stockula and the Bond Reaper will always be lurking in the shadows, but your Cetera financial professional is here to guide you through the fog, and to help you on your financial journey. Even during the scariest of times.

How Sweet It Is

Fun facts on what really matters about Halloween…the candy.

Expected spending on Halloween candy this year is $3 billion. Nearly a third of the total money expected to be spent on Halloween Day ($10.1 Billion).[1]

The most popular candy varies by state. Alaska likes it sour; Arizona likes it hot, and Nevada likes to give Kisses.[2]

The most popular candy varies by decade too. In the 1920s, Baby Ruth was king. The Cetera Investment Management Team is fond of the 2000s when Nerds ruled. [3]

There is a controversial confection we would be remiss not to mention. One of the most disliked candies is still a top seller. Whether you love or hate candy corn, it remains a Halloween staple.[3]

Dentists really aren't spooky. The American Dental Association says it's okay to eat candy, but has tips on which candy is better (hint: chocolate).[4]

[1] https://nrf.com/topics/holiday-and-seasonal-trends/halloween

[2] https://www.candystore.com/blog/facts-trivia/halloween-candy-map-popular/

[3] https://www.aarp.org/home-family/your-home/info-2020/halloween-candy.html

[4] https://www.mouthhealthy.org/en/az-topics/h/halloween-tips

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

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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 **Bloomberg Barclays US Aggregate Bond** Index, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government–related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody’s and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.