

Beware of Over Confidence

Most investors tend to adjust more frequently after their accounts lose value. Conversely when their accounts are at an all-time high everything may seem completely fine. The major indexes are all at or near all-time highs. The S&P 500 index was up over 20% last year and up over 12% so far this year.

Election years are typically good ones for stocks. The reality is that we have good years and bad years, and the stock market has only averaged about 7.5% since the year 2000. We recently met with a new client that had a third of his retirement account invested in TQQQ. This fund uses derivatives to produce triple the gain or loss of the Nasdaq index (QQQ). Since 2023 the ETF has gone from 17 to 64. That is a 270% return. Although the fund has done phenomenally well, it also lost almost 80% of its value between late 2021 and late 2022. This is not an ETF that investors should be holding over the long term not only because of its extreme volatility but also because the derivatives in the fund lose value every day that QQQ doesn't go up even if it remains the same.

If your account is at or near all-time highs, don't be overconfident. Do not wait until you lose 20% of your portfolio or more to make adjustments. Meet with your advisor to make sure that you are not taking more risk than you can tolerate or handle. There are many great strategies available that can potentially outperform the stock market with much less investment risk.

What if the stock market has some down years and either loses money or even just doesn't make that much money over the next five years? How would that impact you financially? Based on historical averages, the stock market has a 12.5% chance of losing money. We recently launched a note issued by Goldman Sachs that will earn 69.5% over the next five years (11.13% per year) if the S&P 500 Futures Excess Return Index is up even .01%. This is a much higher return than the historical averages. If the index is down between 1% and 30% investors lose nothing. If the index is up more than 69.5% you will receive 100% of the gain. The S&P 500 Futures Excess Return Index is highly correlated with the S&P 500 index.

We don't know how the stock market will do over the next 5 years but with this note if the index is down less than 30% you lose nothing and if is positive at all for the next five years you will earn almost 14% per year. Between 1926 and 2017, 87.5% of rolling 5-year periods were positive. *

*Global Financial Data

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