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What If You Invested at the Recent Market Peak?

This bull market began in October 2022. The Fed was then rapidly raising rates at a steep pace and no one seemed capable of even dreaming of rate cuts, never mind guessing when they'd arrive.
The recent gains in the US markets aren't just about the big tech shares. The fundamentals of the broad market have been exceptional, as recently demonstrated by the Dow, S&P500 and NASDAQ 100 each having traded at, or near, their highs. Dividend and earnings growth have also been strong. Earnings growth has been the main driver of these stock market returns. And, according to Robt. Shiller, since 2010, dividends are up more than 8% per year.

For broadly diversified investors, BofA's Savita Subramanian observes that earnings growth for the other 493 S&P 500 companies is heating up too. She explained, "Earnings growth starts getting competitive with the Magnificent 7 starting in 3Q, and eclipses the 7 by 4Q based on consensus estimates…"

The fourth quarter of 2023's positive results are nothing new for stocks. It's true that how individual earnings compare to expectations may result in daily flipping about. But the lasting effect is typically minimal, as these profit reports are backward-looking—representing months of past activities.

Since then, stocks have moved ahead of better-than-expected US economic growth, and the corporate earnings recovery data reflect that. Historically, these are all fundamental bedrocks for a sustained market rally, more substantial footing than hopes about one Fed-controlled interest rate.

It's worth remembering that stock prices will always be far more volatile than their fundamentals, especially in the short run. The stock market is forward-looking, but that doesn't

mean it can forecast what will happen next. On any given day, stocks will do what they do, based on millions of trading decisions made for different reasons, with different goals and time horizons in mind. Feelings and biases tend to float to the top, creating noise that is usually of little benefit to an investor.

But even if rate cuts are a swing factor here, ask yourself: What in the world does it matter to corporate earnings over the balance of this year and 2025 if the Fed makes its first rate cut in May, June, July, September even later? Slim to none is my response…

Okay – that's now. What about investing at this current – or any – top?

Let's check with strategist Warren Pies. According to Warren, going back to 1954, markets are *always* higher one year after the high – the only exception was 2007. And that was after housing had peaked, subprime mortgages were defaulting, and the great financial crisis was about to start…

As I write this, we just had the 15th time when markets have made highs after 12 months. Excluding '07, returns have swung from 4.9% to 36.9% a year later, averaging about 14%. The bull market that followed ranged from 9.7% to 350%, with an average of 114%. Not too horrible.

History also shows that the broader market averages still do well when the market leaders peak and turn lower. From BMO's Brian Belski: "…our analysis shows that the S&P 500 has performed just fine following peaks in the relative performance of the 10 largest stocks. The S&P 500 has averaged a 14.3% return in the year following prior relative performance peaks since 1990. The only period where the index posted a loss occurred in 2001 (Tech Bubble), and … we do not consider that to be a comparable period despite some recent chatter to the contrary. "

Bottom line… We've had nearly 260 new highs over the past 10 years. The record after those has, generally, been good. There's not too much about the market today that's unusual relative to market history, which reinforces the fact that the stock market usually goes up over the long term.

Extreme moves in valuations can signal sharp sentiment swings. But, even then, they aren't a great timing tool, and there's no magic threshold. Because P/Es incorporate past prices—and

past prices *never* predict—they won't tell you where stocks are headed. Fundamentally, the longer-term direction of forward-looking markets depends on what *isn't* priced. How earnings evolve over the next 3 to 30 months - based on new, incoming information versus present thoughts - will determine stocks' broader trend…regardless of "interruptions" along the way.

SUMMARY

It's my opinion that Peter Lynch is the best stock picker ever. One of his best quotes is, "More money has been lost preparing for a correction than in any correction."

Yes, the economy can have an effect on your financial situation. But…your portfolio decisions should be driven primarily by your own personal economy — your risk profile and time horizon.

It's a fact that events in the **short term** — where the setbacks can seem quite distressful — are *easier* to see and, therefore, feel a need to make a response.

It's also a fact that in the **longer term** — where compounding really works its magic — is much *harder* for investors to grasp.

I believe that your best defense against significant losses in the stock market is a long enough term time horizon.

Please contact me with any questions.

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