viewpoint

MARSHALL & SULLIVAN

Marshall & Sullivan, Inc. / Registered Investment Advisor

Fall 2021 newsletter

Lessons Learned

One of our favorite market pundits is Liz Ann Sonders, Chief Investment Strategist at Charles Schwab & Co. In her September strategy piece, she took a break from her usual market commentary and instead wrote about the books and people who shaped her financial thought process. It was fascinating to see the similarities between our collective career paths and investment approach. We thought we would do Liz Ann the flattery of imitation and share a few of the most significant financial lessons we've learned over the last 35 years.

Just one year after starting our financial careers, we learned a few extremely valuable investment lessons. Chief among these were the teaching moments from The Crash of 1987. Leading up to that fateful October morning, most "experts" had been promoting a new investment paradigm suggesting the bull market of the 80's was "different" from all others and would surely continue higher; cautionary tales were noticeably absent from the narrative. On Black Monday, as the market lost nearly a third of its value in a matter of hours, we truly wondered if we had made the right career decisions.

The number one lesson we learned that day was to not to let emotion get in the way of investing. The emotion of the day was to sell, but the right thing to do was hold on to the good companies that we already owned and to take advantage of the market pull-back to buy more. Despite losing nearly 1/3 of its market high value on Black Monday, the S&P 500 index fully recovered and has advanced nearly 1200% to the present day.

This brings up another important lesson gleaned from the months following the 1987 crash: market timing is nearly impossible. If you had been lucky enough to sell your positions at the 1987 market high, when would you have gotten back in? Would it have been when emotions were at the most negative or would you have waited for things to look better? Markets climb a wall of worry and pull-backs are normal. This leads to another valuable lesson learned at this time: The key to making money in the market is *being in the market*, not timing the market. On average there is a least one 10% pullback every 9 months. There is no way of knowing what will trigger these events even though they happen with great regularity.

We also learned that it pays to own good quality companies in both the good times and bad. During market pullbacks, the companies that typically go down the least and/or recover the quickest are those that are fairly valued with a proven record of earnings growth. This was reinforced during the dot com boom of the late 90s when technology stocks were heavy on promises and short on earnings. At its peak in March 2000, the Nasdaq Composite stock market index had risen 400%, only to fall 78% by October 2002, giving up all its gains during the bubble. Some of those companies never recovered.

Two other lessons came from the market turmoil of 2000-2002 that still apply today: 1) Don't chase trends; and 2) Diversify, diversify, diversify. These two go hand-in-hand. If you own a portfolio that is composed entirely of the current market darlings, you might look smart for a while but not for long. Avoiding trends and diversification have another positive side effect as they allow you to stay in the market, no matter what is happening.

The last but perhaps most important lesson from that era continues to echo today: Don't fight the FED. Putting it a different way, the Federal Reserve has a lot of power over the market and if they are providing easy money, like they are now, you should be invested and ride the wave. When the Fed is raising rates, portfolios should be a bit more conservative. When rates are rising, diversification and rebalancing are even more crucial.

Most of what we have learned about investing can be summed up by Sir John Templeton's famous quip: "Bull markets are born on pessimism; they grow on skepticism, and they die on euphoria." Today we are in the skepticism phase. Hopefully euphoria is a long way off.

Looking back over the last 35 years, it's clear we both made the right decision to stay in this business and put the lessons we have learned to work. It has been an honor to be an integral part of helping individuals, families, charitable organizations and institutions reach their financial goals and pass on the lessons we have learned.

Greg Robinson, President
greg@msinvest.com

Davis Miracle, Vice President
davis@msinvest.com