Mitch on the Markets

Bullish Until Proven Otherwise

By Mitch Zacks
Portfolio Manager

Being a successful long-term investor requires research, patience, discipline, smart decision-making, and maybe a little bit of luck along the way. Honing those traits and applying them to portfolio management is a solid formula for generating competitive results over time, in my view.

But there's another key trait that investors need in steady supply in my opinion, and it's one that is arguably very difficult to acquire and maintain – particularly in the world today. That trait does not require training or an advanced degree, but very few people are able to successfully apply it to their investment strategy over long stretches of time.

That trait, in a word, is *optimism.*

Overcoming Short-Term Apprehensions with Long-Term Optimism

The world is full of uncertainties - disease outbreaks, the threat of nuclear war, hyper-partisanship and divisiveness, mounting debt, anemic savings rates, a healthcare system on the brink – and it's easy to be skeptical, wary, *bearish*. But, in my view, history tells us it's not smart to be any of those things. It's better to be optimistic. It's better, in my view, to be bullish until proven otherwise.

In 1950, the Korean War broke out – just five years after the end of World War II. The S&P 500 was up +30.81% that year. In 1963, President Kennedy was assassinated, but the market was up +22.61%. 1975 marked the fall of Vietnam, yet the market soared +37%. In 1993 Congress passed the largest tax increase in history, and the S&P 500 increased +9.97%. And so on throughout history.

Over time, there are events and obstacles that seem insurmountable, and sometimes these events result in mass casualties or the destruction of numerous businesses, banks, or even industries. Yet stocks have managed to battle through the adversity.

In some cases, the gains seem to defy logic, but at the end of the day it's just the course that history has carved (and will continue to carve, in my opinion). Stocks love to climb a wall of worry, and stocks have shown over time that long-term returns may come to those who wait. Waiting requires patience and an ever-constructive attitude about human potential and the potential for relentless growth in the global economy. It's requires optimism.

Since 1998, we've endured the tech bubble bursting, 9/11, the Iraq War (which continues in a different form today), and the deepest recession since the Great Depression with the implosion of several of the world's largest financial institutions. But $10,000 invested on January 1, 1998 would have been worth $40,135 by December 29, 2017, marking a +7.2% annualized gain for the investor patient and *optimistic* enough to take the long view that the economy would prevail. And, it has.[1]

In the last two decades, an investor whose optimism wavered during the most challenging of times could have paid a big price, in the form of opportunity cost. Selling out of the market in response to the biggest declines – usually to 'wait it out' – could have meant sacrificing some of the biggest 'up' days the market had to offer. During the 1998 – 2017 timeframe mentioned above, 6 out of the 10 best days in the market occurred within two weeks of the 10 worst days. The best day of 2015, for example – August 26 – was just two days after the worst day of that year (August 24).[2] Downside volatility often gives way to "v-shaped" bounces, making steep declines arguably some of the worst opportunities to sell out of stocks, in my view. In order to stay cool and collected during the worst of times, an investor needs an optimistic vision of the future.

Bottom Line for Investors

I'm not calling for interminable, blind optimism always and everywhere. There will certainly be reasons in the future to think and invest defensively. But those times in history are almost always protracted, difficult-to-forecast periods. If you don't have the tools or a manager capable of making that assessment, then I'd caution against trying to time the market yourself, based on gut feelings or guesses. History suggests you'll underperform if you're in-and-out of the stock market too frequently.

In my view, the investor who invests in equities for long stretches of time throughout their investment lives may be able to generate attractive, competitive returns. What it takes to remain invested for such long stretches – particularly in the face of so many adverse events and war and uncertainty – is optimism. Channel optimism, see past the small stuff, and realize that stocks and the global economy have overcome what might seem like the biggest challenges. Do that, and I think you'll have a successful investment career.

About Mitch Zacks

Mitch is a Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

[1] *These are hypothetical performance calculations and are shown for illustrative purposes only.* Source - JP Morgan, *Guide to Retirement*, Page 40,- https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-retirement

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