Zacks Investment Management

Mitch on the Markets

Assets Plummet – 4 Takeaways You Don't Want to Miss

By Mitch Zacks
Portfolio Manager

It's been a "nowhere to hide" situation for investors over the last several weeks.

If we look at the performance of 70 different types of asset classes from gold to bonds to oil to stocks, about 90% of them are down for the year through mid-November (negative total return in dollar terms). The last time that many asset classes were down at the same time, none of us were alive – we'd have to go back to 1920, when 84% of 37 asset classes were negative.[1]

Normally, we expect uncorrelated asset classes to zig while others zag, which is why diversification is generally a useful tool in smoothing out returns over time. But these days, there seems to be only one possible direction for asset classes to go: down.

Regular readers know there's probably an upshot to this gloomy data, since I've been consistently bullish on the equity markets all year on the basis of low recession risk and a conviction that the U.S. and global economy will continue to grow throughout 2019. Well, there *is* an upshot: I see these synchronized declines as a "pause and refresh" for markets, before what could possibly be the final up leg in this bull market over the next year or so.

In other words, I view the current corrective activity as a positive for the markets, not a negative. In 2017, just 1% of asset classes delivered negative returns[2] – a reminder that with all the 'give' we've gotten out of this bull market, we should reasonably expect a little 'take' as well. This is how markets work.

To be sure, we've seen a bit of weakness in the housing and auto markets in the last quarter or two, which is important consumer-oriented data worth watching closely. But by and large, in my view, the economy remains on strong footing – even to the point where I believe an interest rate increase in December is still warranted, in spite of its perceived risk and unpopularity. S&P 500 corporations are still turning-in double digit earnings growth, unemployment hovers around record lows, inflation remains in check, and we expect the economy to grow close to 3% in 2019. With all of these factors in mind, investors might be encouraged to view the current selling pressure as I view it: as a strategic opportunity, not as a sign that it's time to go defensive.

The Bigger Picture

Sell-offs often provide strategic opportunities to rebalance portfolios. As asset prices change or perhaps decline in value very quickly, oftentimes investors can use those opportunities to build a position in a security, a sector, or an asset class – ultimately re-allocating an investment portfolio.

But that's not what I want to focus on here. Instead, I want to use the current 'corrective' action in the markets to provide readers with long-term perspective, particularly if the declines are nudging you towards wholesale changes in your portfolio. We consistently need healthy doses of long-term perspective when it comes to investing, in my view, and there's arguably not a better time to do that than during a selloff.

Since the theme of this week's column is focused on asset classes across the board falling, I think it's a good idea to take a look at a variety of asset class returns over the longer-term. The idea here is to contrast the short-term selling pressure against the strength of long-term gains. Investors with a long-term mindset, it follows, are generally less spooked by market volatility like we're seeing today.

Below, I map out the total *annualized* returns for a handful of asset classes over a 15-year period, from 2003–2017. It is very important that readers bear in mind that these returns **include the Great Recession declines**, when the stock market at one point lost nearly half its value.

Total Annualized Return from 2003–2017:[3]

Asset Class	Annualized Return
Emerging Markets Equity	+12.7%
Small-Cap U.S. Equities	+11.2%
REITs	+11.1%
Large Cap U.S. Equities	+9.9%
High Yield Bonds	+9.6%
Developed Market Equities	+8.6%
Fixed Income	+4.1%
Cash	+1.2%
Commodities	-0.3%

Source: JP Morgan

Bottom Line for Investors

I have four takeaways from the data above to share with readers for this week's bottom line:

1) Over long stretches of time throughout history, stocks and bonds have delivered favorable positive returns.

2) A diversified portfolio of stocks, bonds, and REITs may have yielded solidly positive returns over the last 15 years.
3) Even with having to endure the worst bear market in nearly a century, stocks, bonds, and REITs managed to do just fine over the last 15 years.
4) Focusing on the long-term versus the short-term is perhaps the greatest key to success in investing, in my view.

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] The Wall Street Journal. November 25, 2018, https://www.wsj.com/articles/no-refuge-for-investors-as-2018-rout-sends-stocks-bonds-oil-lower-1543155033?mod=djem10point
[2] The Wall Street Journal. November 25, 2018, https://www.wsj.com/articles/no-refuge-for-investors-as-2018-rout-sends-stocks-bonds-oil-lower-1543155033?mod=djem10point
[3] J.P. Morgan. October 31, 2018, https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer