CLEARPOINT

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INVESTING AT ALL-TIME HIGHS

BY TONY ALAIMO, CFA, MANAGING DIRECTOR, CLEARSTEAD TRUST

An investor truism is that "time in the market is better than timing the market." In the same way, a buy and hold mentality is the right strategy for the average investor. As history shows us, the market goes up over time. For long-term investors, even if you invested just before the worst selloffs in the 1980s or 1990s, you would currently have multiples of the money you invested. Nonetheless, it is normal for clients to express nervousness about putting new money to work in equities just after the market—typically thought of as the S&P 500 Index—has hit new all-time highs. This has to do with a well-documented investor bias—loss aversion. In short, it is normal for investors to fear large losses more than prize aggressive gains.

Looking back 30 years, all you had to do was stay in the market during all the declines (or better yet, buy the dips). The S&P 500 compounded annual returns are 15.9%, 13.%, and 10.8% over the past 5, 10, and 30 years and a staggering total return of over 2,000% over the past 30 years.[1] Meanwhile, 2024 had the best stock market performance in the first three quarters since 1997 and the S&P 500 is closing in on +30.0% year to date (as of 09/30/2024).[2]

CLEARSTEAD ANNOUNCES BRADLEY KNAPP WILL BECOME PRESIDENT AND CHIEF EXECUTIVE OFFICER

Clearstead Advisors, LLC ("Clearstead") announced on December 12th that Bradley D. Knapp, CFA, CAIA will become President and Chief Executive Officer on January 1, 2025. Mr. Knapp succeeds David C. Fulton, Jr., CFA, Chief Executive since 2014, who will continue to serve on the firm's Board of Directors.

Mr. Knapp takes charge of a larger and more complex firm than existed ten years ago. Under Mr. Fulton's leadership, Clearstead's revenues and earnings have grown significantly, and the number of employees and assets under advisement have increased several times. Clearstead also added capabilities in tax compliance and financial planning, and formed Clearstead Trust, a nondepository trust company. The firm has acquired eleven firms in the past ten years.

Read the full Press Release on our website: https://www.clearstead.com/in-the-news/press-release-clearstead-announces-brad-knapp-will-become-president-and-ceo/

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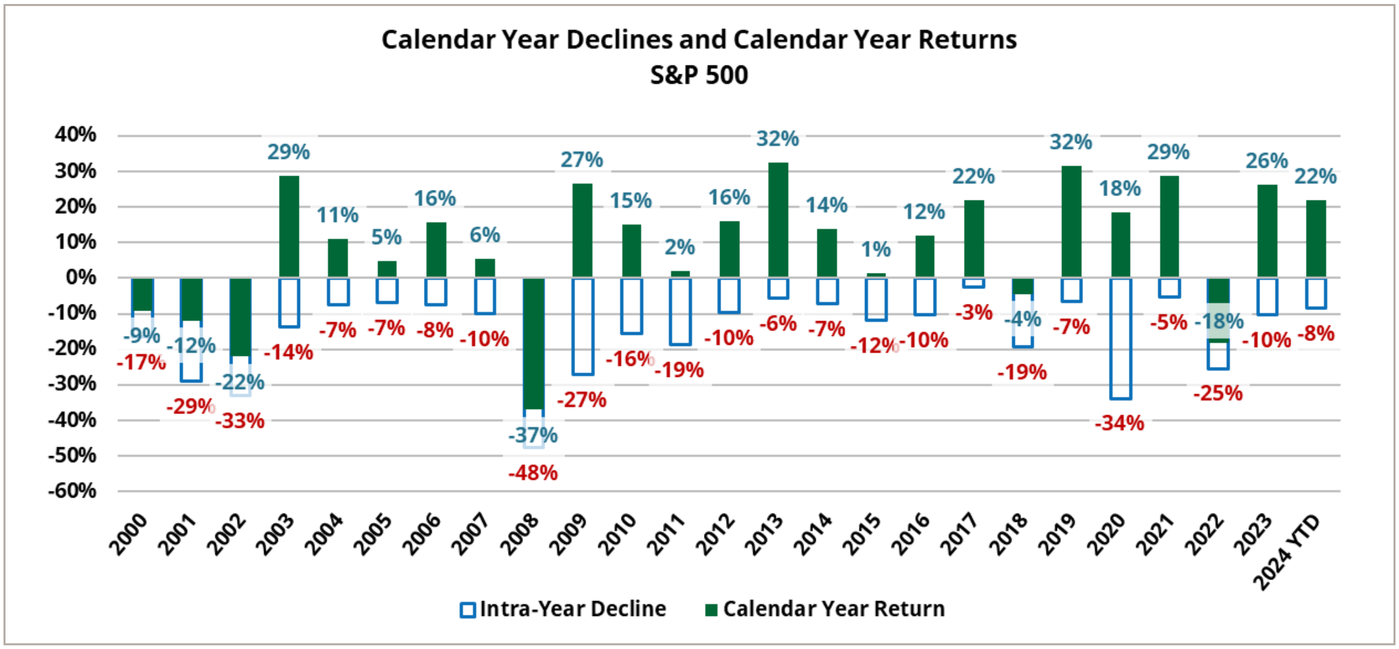

Source: Clearstead, Bloomberg, as of 9/30/2024.
Past performance is not an indicator of future results.

The backward-looking data clearly shows that the right strategy would have been to stay invested in equities during all periods of volatility. Based on historic returns and with a long-time horizon, the market should be higher in the future. The investment backdrop exiting 2024 appears to be quite favorable, with strong corporate fundamentals continuing to support higher than average valuations, coupled with the "Trump Bump" hopes that may come from deregulation, trade tariffs to boost US manufacturing and growth, and the potential for further corporate tax rate cuts.

Additionally, investors may be tempted to adjust their portfolios given the recent presidential election and considering their individual political orientation. In short, investors may feel tempted to invest based on politics rather than economic fundamentals. In our view, investing on political biases may cause investors to fall short of reaching their objectives. Clearstead has examined long-run equity returns under both Republican and Democratic presidencies since WWII and found little evidence that control of the presidency by either party materially changes investors long-run returns. Similarly, a recent article from State Street had this to say about Republicans versus Democrats in office: "Longer term, it's statistically impossible to say the market has performed better under one party than the other. Since 1947, the S&P 500's average 11% annual price return with a Democrat as president beats a Republican president's 7.1%. But full Republican control of the White House and Congress has produced a 12.9% return while full Democratic control has averaged 9.3%."[3]

Party Elected in November to the Presidency	Average 10-Yr Annualized Return (invested 1-Jan of election year): 1936 to 2012
Democrat	+11.2%
Republican	+10.5%

Source: Clearstead, Bloomberg, as of 1/30/2024.
Past performance is not an indicator of future results.

The historical data makes it look easy to buy and hold equities, yet the reality is that feelings of euphoria and fear drive investors to make decisions that could make buying and holding quite difficult.

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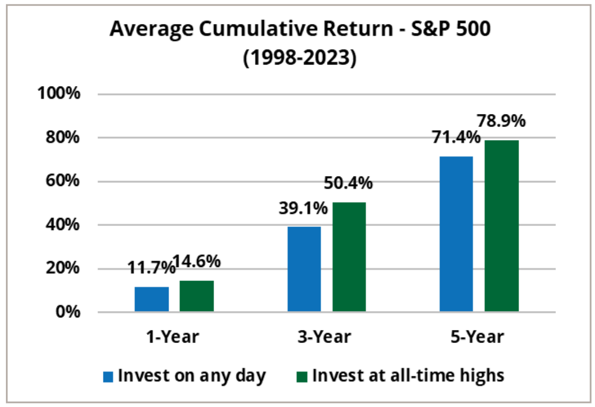
THERE IS NOTHING LIKE PRICE AND VOLATILITY TO CHANGE SENTIMENT

The total return data fails to account for the emotional aspect of turbulent markets and investors' reactions during volatility. Sitting on a cash pile to invest while waiting for a correction during a bull market can be detrimental to potential returns and a market correction is emotionally stressful and painful to your portfolio balance; both scenarios are common. A decline of at least 10% occurred in 10 out of the last 20 years, with an average pullback of 15%. The extreme crashes can cause a lot of financial anxiety and panic selling by investors. Since 2000, there have been S&P declines of -30.5% (Mar 2000-Sep 2001), -28.4% (Jan-Oct 2002), -40.7% (Oct 2007-Nov 2008), -18.2% (Jan 2009-Mar 2009), -19.6% (Feb 2020-Mar 2020), -23.9% (Jan 2022-Oct 2022).[4]

It is worth noting that equity indexes often spend a considerable amount of time at or near record highs. For instance, analysis of the S&P 500 over the past 25 years showed that it has spent about 40% of all trading days within 5% of a historic high.[5] Similarly, the longer-run returns for those that invest at an all-time high are slightly higher than investing in any other day. It is worth noting that missing just a few of the markets' best days could meaningfully negatively impact a portfolio's long-run returns.



Source: Clearstead, Bloomberg, as of 6/30/2024.
Past performance is not an indicator of future results

If a person is in the larger net worth category, they could be passive in public equity and get diversification and alpha through private markets, and these private market allocations and the overall level of their net worth acts as a buffer to the inevitable periods of where public equities sell off.

However, for a person with smaller net worth or for individual circumstances where risk tolerance is low and sensitivity to downside volatility is high, it is natural to be apprehensive to allocate new money to equities at all-time highs. Many clients worry that if they see large losses to newly invested funds that they may begin to panic and sell and create a permanent loss of capital. Clients have taken a long time to build their retirement savings and large drawdowns on any portion of their portfolio can be emotionally and financially impactful.

WHAT ARE SOME OF YOUR OPTIONS IF YOU HAVE CASH TO INVEST?

- Keep all your investable cash in a higher-yielding money market, CD, or treasury earning you a 4-5% pre-tax return (at present and wait for a buying opportunity in equities. This sounds like a decent option in theory but much harder in practice. As the stock market goes down, even if you are working with a professional, you may tell them not to buy to your target allocation because you are scared.

- Re-allocate or dollar cost average into equities to get your portfolio to a target allocation that makes sense for your financial profile (for example 60% equities/40% fixed income). Having a professional accelerate or decelerate the dollar cost averaging program is very helpful to take emotions out of the equation.

- Invest in solutions such as a target outcome (buffered) ETF (see below) for a portion of your equity allocation, as a temporary placeholder, which provides guardrails for your equity returns.

NEWER TOOLS IN THE INVESTOR'S TOOLBOX: TARGET OUTCOME ETF'S

Target outcome ETFs have evolved from a strategy that institutional investors used in the 1990s. The first batch of ETFs were launched in 2018 and the industry has grown to over $27 billion in assets under management. These solutions combine exposure to a reference asset, like the S&P 500, with a prescribed downside buffer that is designed to shield you from losses between 0% to 25%, which is accomplished inside the ETF by capping your total potential upside return during the designated time period (typically quarterly or annual). If, as an investor, you get nervous when the market is volatile and your instinct is to sell, or you are worried about the possibility of investing cash right before a big selloff and panic selling causing permanent capital loss, this could be a great option for you. These ETFs offer daily liquidity with no lockup period and, although they do have the potential to lose money via the fee (0.5-0.8% per year) and the underlying asset price falling below the set buffer, they have the potential to provide more than an investment will get in a US treasury or Money Market which is currently yielding approximately 4.75%. These solutions are designed to provide guardrails to your portfolio and emotions. This strategy could reduce the scary lows where fear could make you want to sell all your equities, in exchange for sacrificing some upside if the market outperforms the prescribed index cap.

Target outcome products are designed to provide you with a smooth return scenario. One of the primary drawbacks include at the start of a new period there is a lag in the upside return versus the actual index return, due to the investment manager fees, so they are not appropriate for day trading, since the fees are higher than typical S&P 500 ETFs (0.8% versus 0.02-0.07%). Also, if you are using taxable money and the market continues to go up after buying, you will be faced with capital gains tax if your plan is to re-allocate money into another investment. For example, if a client selected a Target Outcome ETF with a cap of 20% and a buffer being -10%, then if the referenced index (ie. S&P 500) is up 25% then the buffered ETF is capped at only up 20%; however, if the referenced index is down 20% then the buffered ETF performance is only down 10% because the first 10% of the loss is protected by the buffer.* There are additional ETFs that have different performance caps and downside buffers. If you are interested in learning more about these types of investments please contact us for more details.

**This should not be construed as a recommendation or advertisement for Target Outcome ETFs. Clearstead disclaims any liability for any direct or incidental loss incurred by applying any of the information. All decisions must be evaluated as to whether it is consistent with your financial situation. The example provided is based on hypothetical reference asset returns and do not account for payment of ETF investment manager fees and expenses so the actual return would be lower. A fund may not be able to achieve the hypothetical returns shown here. A 10% Buffer ETF seeks to shield investors against losses from 0 to -10%, over the Target Outcome Period. The Target Outcome Period refers to the amount of time between when the ETF options are purchased and when they will expire. The Target Outcome Period is typically about one year. The example is for illustrative purposes only and is not indicative of any actual investment.*

These products are designed to provide a vehicle to overcome the natural investor caution of investing at the height of the market. These products should be viewed as a temporary placeholder to have some equity-like exposure while waiting for an entry point into equities. This is because, if used over the long term, they compound equity returns at a lower upside rate of return, making them poor long term investment options. Since 1980, the S&P 500 has had annual returns exceeding 10% in 28 years, while it has dropped by more than -10% only four times over a calendar year.[6] (An investor who preferred annual returns capped at 10%—as well as losses limited to -10%—would have gained +248% (before any fees from the buffered products) from 2000 through the end of 2023, while an investor simply invested in the S&P 500 would have gained +511%).[7]

Clearstead can guide clients through temporary investment solutions, like buffered ETFs, that provide some near-term protections to more permanent, long-term wealth-compounding investments in the broader market. As fiduciaries, Clearstead is committed to providing our best guidance to our clients, which often includes advice to ignore temporary fears and remain laser-focused on the long-run investment horizon.

Source:

(1) S&P 500 Index total Return 2,084.63% 10/1/1994–09/30/2024; 30-year annualized return 10.82%, (10/1/2014-9/30/2024) 10-year annualized return 13.35%, (10/1/2019-09/30/2024) 5-year annualized return 15.94%.
(2) Morningstar Q1-Q3 returns 1997 to 2024.
(3) https://www.ssga.com/us/en/intermediary/insights/us-election-wrap-up-the-comeback-president-and-what-happens-next?WT.mc_id=em_etf-etf_election-us-web_na_ssga-etf_btn_n_mf1_n_nov24&mkt_tok=NDUxLVZBVy02MTQAAAGWycCBejhHCMOSMd1Nni_48a8hpDddmWjXPIe7Dg1-w_EI33KitxeBEx_sqHM7Z9Z9v5UTiAmDYUr_CG8LpKVFIkKhmXIHCzJhSsuTz7mqFbcaNx7S
(4) Morningstar – max drawdown select periods.
(5) https://www.bespokepremium.com/interactive/posts/think-big-blog/sp-500-percent-of-time-at-new-highs.
(6) Morningstar S&P 500 calendar year returns 1980 to 2023.
(7) Morningstar S&P 500 total return Jan-2000 to Dec-2023; Clearstead calculations based on Morningstar S&P 500 calendar year returns 2000 to 2023.

MARKET BENCHMARK RETURNS

November 30, 2024		1M	3M	12M	YTD
US Large Cap	S&P 500 Index	5.9%	7.2%	33.9%	28.1%
US Small Cap	Russell 2000 Index	11.0%	10.1%	36.4%	21.6%
Developed Intl	MSCI EAFE (Net)	-0.6%	-5.1%	11.9%	6.2%
Emerging Intl	MSCI Emerging Markets (Net)	-3.6%	-1.7%	11.9%	7.7%
Real Estate	FTSE NAREIT All REITs Index	3.5%	2.6%	23.3%	13.2%
Core Fixed	Blmbg. U.S. Aggregate Index	1.1%	-0.1%	6.9%	2.9%
Short Fixed	Blmbg. 1-3 Year Gov/Credit index	0.3%	0.6%	5.4%	4.1%
Long Fixed	Blmbg. U.S. Long Government/Credit	2.0%	-0.5%	8.6%	0.7%
Corp Debt	Blmbg. U.S. Credit Index	1.3%	0.5%	8.4%	4.0%

Source: Bloomberg

The performance data shown represents past performance. Past performance is not an indicator of future results. Current performance data may be lower or higher than the performance data presented.