Market Commentary
August 18th, 2023

English Version

Insigneo Weekly Dispatch

The Importance of Maintaining a Long-Term Perspective

Maintaining a long-term perspective and staying the course are paramount to achieving our long-term investment goals.

Guidance on investments and the major structural factors behind your clients' portfolios.

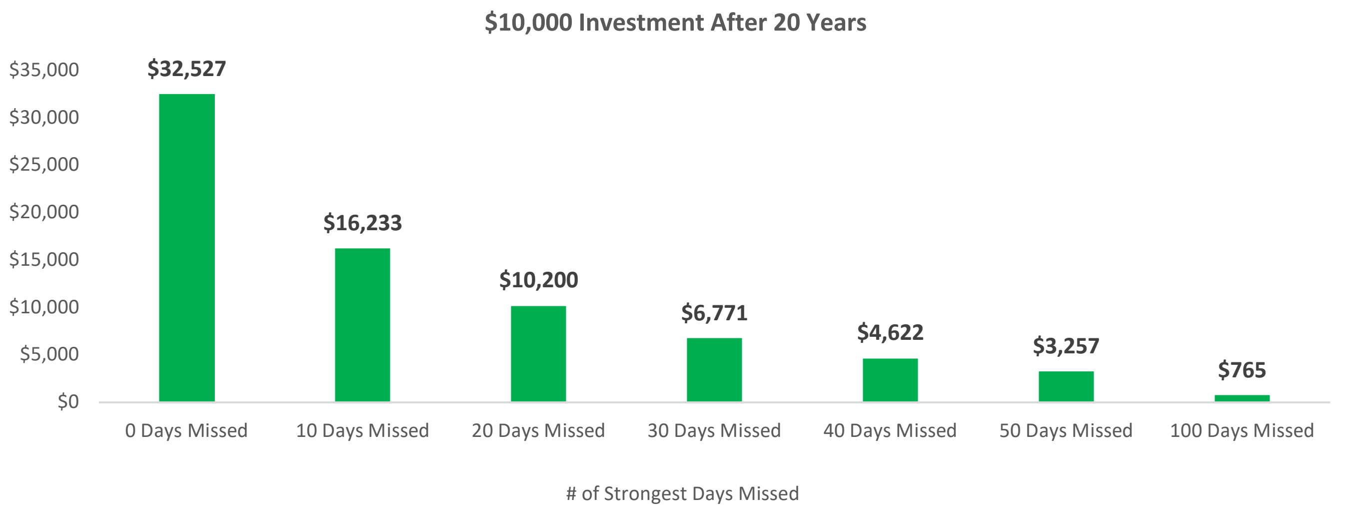
insigneo

By Mauricio Viaud
PM and Senior Investment Strategist
Insigneo

The Importance of Maintaining a Long-Term Perspective

In the investment world, as in life, keeping things in perspective is of critical importance. When we enter a desired destination into Google maps or Waze, sometimes the route shown can be full of twists and turns, at times leading us to think to ourselves “I know a better way”. And how many times, when we get off the suggested route, do we find ourselves taking longer to get to our destination than we would have if we had just stayed the course? Granted, sometimes taking a different route or detour may be the right thing to do in the short-term, to avoid a traffic accident for example. However, over the long haul, it is important not to lose perspective of where we want to go. Investing to achieve long-term goals has very similar dynamics.

In the investment industry, most people often discuss their views of the markets with a focus on a relatively short time horizon. That is why we see so many “New Year Outlooks” published around December or January every year, and that is ok, our industry is geared that way. This is because near term data is more readily available to analyze. For example, most companies tend to give financial outlooks for the year ahead, sometimes two years, but rarely more than that. Most countries’ central bankers tend to produce forecasts for the next year or two, but again, rarely more. However, most investors have investment horizons that are longer than one or two years. Frankly, most individuals that invest in the markets tend to have investment



Source: Legg Mason and Franklin Templeton

horizons of at least 10 years. Knowing this discrepancy, it is of critical importance to keep our personal goals in mind when investing in any market. Every investor has different goals, and keeping our individual objectives in perspective is key to achieving them within our planned investment horizon. Much like the example of the Google maps route above, staying the course that best suits our particular situation is the most consistent way to achieve our investment goals over the long term. Taking advantage of well-researched tactical opportunities along the way can be fruitful, but it is important to do this within the context of a strategic, long term-term perspective.

To this point, let's study the long-term merits of a buy and hold strategy compared to market timing. In a study conducted by Legg Mason and Franklin Tempelton, researchers found that investing $10,000 in the S&P 500 in the year 2000, and leaving it invested for 20 years, would have grown to $32,527 at the end of that period. However, if an investor engaged in market timing would have missed the market's strongest 10 days over that same period (out of over 5,000 trading days) his or her $10,000 investment would have grown to $16,233, half of what they would have earned if they had followed a buy and hold strategy. In fact, as the chart above shows, missing just 30 of the market's strongest days over the 20-year period would have led to a negative return of nearly one third of the initial investment. Legg Mason and Franklin Templeton are not alone with these conclusions. A study conducted by J.P. Morgan and recently published by Advisor Channel had similar findings. This study concluded that in the period from January 2003 through December 2022, an investment of $10,000 in the S&P 500 would have grown to a whopping $64,844 if left fully invested over that period. However, missing the strongest 40 days of that same period, would have seen the initial $10,000 fall to $8,048, a loss of nearly 20%. Much of the extreme discrepancy in returns that can happen because of poor market timing tends to revolve around basic human behavior. Many investors tend to invest in the market as it is moving higher and sell when it is moving lower. In general, the higher it goes, the more investors jump in, and the lower it goes, the more investors sell. This irrational behavior runs counterintuitive to the basic investment principles of buy-low and sell-high, but during extreme market moves, a surprisingly high number of investors throw away these time-tested investment principles and are instead motivated by fear and greed. This is where market timing can lead to major problems, as some of the strongest up-days in markets tend to happen in the middle of the most violent bear markets. J.P. Morgan pointed out that in the 20-year period studied “7 of the best 10 days occurred within 2 weeks of the worst 10 days” and “six of the 7 best days occurred after the worst days” (J.P. Morgan Asset Management). Investors that sold out of fear during meaningfully weak days in bear markets would have missed the immediate rebound over the next few days.

It is important to remember that corrections are a normal part of the lifecycle of the markets. A study by Compound Capital Advisors found that for the S&P 500, declines of 15% happen approximately every 2 and a half years, while more severe declines of 20% occur approximately every 4 years. Ironically, after this study was published by Money Magazine in October 2021, the S&P 500 marched almost 6% higher, to its peak in January 2022, before declining over 20% to its lows in October of the same year. From those lows, the market bounced back 20% to the present day. So, an investor that would have paid no attention to his investment in the S&P 500 from October 2021 until now, and would have tuned into the market just yesterday, could have concluded that this investment declined a mere 1% over that period, oblivious to the 21% decline and respective 20% bounce over the same period. However, an investor who sold out of fear at the bottom of this recent decline and never got back into the market would have seen his investment decline by over 20%. That difference demonstrates the power of staying the course.

This is not to say that opportunistic tactical allocation strategies cannot not be implemented to protect against market declines. As published in a report early last month we indicated that in light of a number of headwinds facing the market, we would avoid falling prey to emotions and would not advocate chasing it higher. From that point, the S&P 500 rose 4% to its highs at the end of last month, before declining 4.5% to its current level. At that time, we said that we were not encouraging investors to exit the market, simply to consider protecting profits by shifting to a higher quality stance or purchasing “insurance” through the use of ETFs or put options.

When storms that occur every season appear on the horizon, we close the windows in our house and bring the dog inside until the storm passes. We do not sell the house and move to a different city every time there is bad weather. The same logic applies to investing. Tactical allocation strategies are reasonable, where appropriate. However, maintaining a long-term perspective and staying the course are paramount to achieving our long-term goals.

Click or scan this code to access more insights at insigneo.com/insights

Important Legal Disclaimer

Insigneo Financial Group, LLC comprises a number of operating businesses engaged in the offering of brokerage and advisory products and services in various jurisdictions, principally in Latin America. Brokerage products and services are offered through Insigneo International Financial Services, LLC, headquartered in Puerto Rico, and through Insigneo Securities, LLC, headquartered in Miami. Both are members of the Financial Industry Regulatory Authority (FINRA) and Securities Investors Protection Corporation (SIPC). Investment advisory products and services are offered through Insigneo Advisory Services, LLC, an investment adviser registered with the Securities and Exchange Commission. In Uruguay, advisory services are offered through Insigneo International Asesores de Inversion Uruguay, SA, Insigneo Asesores de Inversion Latam, SRL, and Insigneo Asesores de Inversion de Uruguay, SRL, in Argentina through Insigneo Argentina, SAU, and in Chile through Insigneo Asesorias Financieras, SPA. Collectively, these eight operating businesses make up the Insigneo Financial Group. To learn more about the Broker Dealers including their conflicts of interest and compensation practices, please go to https://insigneo.com/disclosures/ or via www.finra.org. To learn about Insigneo Advisory Services, LLC and any conflicts related to its advisory services, please see its Form ADV and brochure which can be found at Investment Advisor Public Disclosure website https://adviserinfo.sec.gov/

FOR AFFILIATES LOCATED IN CHILE
Insigneo Asesorías Financieras SPA se encuentra inscrito en Chile, en el Registro de Asesores de Inversión de la Comisión para el Mercado Financiero. Este informe fue efectuado por área de Research & Strategy de Insigneo Securities LLC. o sus proveedores, en base a la información disponible a la fecha de emisión de este. Para evitar cualquier conflicto de interés, Insigneo Securities LLC dispone que ningún integrante del equipo de Research & Strategy tenga su remuneración asociada directa o indirectamente con una recomendación o reporte específico o con el resultado de una cartera.

Aunque los antecedentes sobre los cuales ha sido elaborado este informe fueron obtenidos de fuentes consideradas confiables, no podemos garantizar la completa exactitud e integridad de estos, no asumiendo responsabilidad alguna al respecto Insigneo Securities LLC, Insigneo Asesorías Financieras SPA ni ninguna de sus empresas relacionadas.

Este material está destinado únicamente a facilitar el debate general y no pretende ser fuente de ninguna recomendación específica para una persona concreta. Por favor, consulte con su ejecutivo de cuentas o con su asesor financiero si alguna de las recomendaciones específicas que se hacen en este documento es adecuada para usted. Este documento no constituye una oferta o solicitud de compra o venta de ningún valor en ninguna jurisdicción en la que dicha oferta o solicitud no esté autorizada o a ninguna persona a la que sea ilegal hacer dicha oferta o solicitud. Las inversiones en cuentas de corretaje y de asesoramiento de inversiones están sujetas al riesgo de mercado, incluida la pérdida de capital.

La información base del presente informe puede sufrir cambios, no teniendo Insigneo Securities LLC ni Insigneo Asesorías Financieras SPA la obligación de actualizar el presente informe ni de comunicar a sus destinatarios sobre la ocurrencia de tales cambios. Cualquier opinión, expresión, estimación y/o recomendación contenida en este informe constituyen el juicio o visión de área de Research & Strategy de Insigneo Securities LLC. o sus proveedores, a la fecha de su publicación y pueden ser modificadas sin previo aviso.

FOR AFFILIATES LOCATED IN URUGUAY
En Uruguay, los valores están siendo ofrecidos en forma privada de acuerdo al artículo 2 de la ley 18.627 y sus modificaciones. Los valores no han sido ni serán registrados ante el Banco Central del Uruguay para oferta pública.

FOR AFFILIATES LOCATED IN ARGENTINA
Insigneo Argentina S.A.U. Agente Asesor Global de Inversión se encuentra registrado bajo el N° 1053 de la Comisión Nacional de Valores (CNV) e inscripto ante la Inspección General de Justicia (IGJ) bajo el N° 12.278 del Libro 90, Tomo –, de Sociedades por Acciones. Este informe fue efectuado por área de Research & Strategy de Insigneo Securities LLC. o sus proveedores, en base a la información disponible a la fecha de su emisión. Para evitar cualquier conflicto de interés, Insigneo Securities LLC dispone que ningún integrante del equipo de Research & Strategy tenga su remuneración asociada directa o indirectamente con una recomendación o reporte específico o con el resultado de una cartera. Aunque los antecedentes sobre los cuales ha sido elaborado este informe fueron obtenidos de fuentes consideradas confiables, no podemos garantizar la completa exactitud e integridad de estos, no asumiendo responsabilidad alguna al respecto Insigneo Securities LLC, Insigneo Argentina S.A.U. ni ninguna de sus empresas relacionadas. La información base del presente informe puede sufrir cambios, no teniendo Insigneo Argentina S.A.U. la obligación de actualizar el presente informe ni de comunicar a sus destinatarios sobre la ocurrencia de tales cambios.

Este material está destinado únicamente a facilitar el debate general y no pretende ser fuente de ninguna recomendación específica para una persona concreta. Por favor, consulte con su ejecutivo de cuentas o con su asesor financiero si alguna de las recomendaciones específicas que se hacen en este documento es adecuada para usted. Este documento no constituye una oferta, recomendación o solicitud de compra o venta de ningún valor negociable en ninguna jurisdicción en la que dicha oferta o solicitud no esté autorizada o a ninguna persona a la que sea ilegal hacer dicha oferta o solicitud. Las inversiones en valores negociables están sujetas al riesgo de mercado, incluida la pérdida parcial o total del capital invertido. Cualquier opinión, expresión, estimación y/o recomendación contenida en este informe constituyen el juicio o visión de área de Research & Strategy de Insigneo Securities LLC. o sus proveedores, a la fecha de su publicación y pueden ser modificadas sin previo aviso.