

# WHEN WILL THE MARKETS RETURN TO NORMAL?

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FEBRUARY 2024



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*Welcome to February! Every month, we like to impart some perspective on the financial markets or shed light on a current headline or two, all in an attempt to help our clients sift through the noise and become slightly more educated investors. We welcome your comments and suggestions, and as always, we invite you to share this piece with anyone you believe may find it of interest.*

After last year's huge fourth-quarter rally in stocks, a question we're hearing a lot these days is "When will the markets return to normal?" Perhaps you've been wondering the same thing.

I get it. Given the volatility that has defined the 2020s so far, it's a reasonable question.

But before attempting to answer, let's first define a "normal market", or at least, what people are referencing when they ask the question.

Since the S&P 500 has returned an average of about 10% per year for the last century<sup>1</sup>, it's reasonable to assume that most would define a "normal market" as one whose annual return is within proximity of that long-term average. So we'll define "normal" as one that returns between 8% - 12% in any given year.

Given the long-term averages, one might think that an annual return in this ballpark would be a common occurrence, yet that's been nowhere near the case.

Here's the data - since 1928, the market has returned between 8% - 12% only four times<sup>2</sup>.

Even if we expand our definition to include returns between 5% and 15%, we've experienced "normal" just 17 times over the last 96 years<sup>2</sup>.

Fascinating.

Occurrences of minimal volatility are also quite rare. Within the same 96-year time frame, the intra-year decline in the S&P 500 has averaged around 16%<sup>3</sup>. This means we can expect stocks to fall considerably in any given year, a reality that has been borne out even in years that have ultimately delivered high returns.

So looking at the data, it is quite clear that "normal" is exactly what we've been experiencing over the last few years. The catalysts may change from year to year, but booms, busts, volatility, and everything in between are actually the norm when it comes to the markets.

And if what we're experiencing is, in fact, the norm, we would be wise

to anticipate more of the same in the decades to come.

Of course, looking at the long-term historical returns, accepting volatility has been well worth it. And while those past returns tell us very little about what the future holds, we can be reasonably sure that the strategy required to obtain it—whatever it is—will remain the same. That is, staying the course.

Despite the historical success of this strategy, many investors will still grow impatient when the markets turn choppy, allowing emotion to foster poor decisions. This is why so many investors fail. It's our ability to make rational decisions when the rest of the investing world is falling prey to fear that helps determine our fate.

This is just as true for the world's greatest investors as it is for you and me.

While almost every book written about Warren Buffett has focused on his investing process, in the book *Buffett: The Making of an American Capitalist*, Roger Lowenstein points to his character and behavior first when he says, "Buffett's genius was largely a genius of character—of patience, discipline, and rationality."

It's funny to think about it this way, but if Buffett fell prey to fear during bouts of intense market volatility, we'd likely have never heard of him. Instead, his success has been built on the same foundation for which we advocate in these notes and in every client conversation—patience, discipline, and rationality.

My point is that investors who may be waiting for average returns and minimal volatility are likely to find themselves disappointed because that environment simply doesn't align with the experience of history. Long-term investors like you and me know that it's far better - and far healthier - to focus exclusively on the things we can control so that we can better endure those things we cannot.

You can rest assured that regardless of what the future holds, I'll be here with you through all of it, encouraging you along the way.

As always, there's more to come.

<sup>1</sup>Political Calculations <sup>2</sup>NY Stern School of Business <sup>3</sup>Charlie Bilello