MAY 2024 CLIENT QUESTION OF THE MONTH

DIRE MARKET PREDICTIONS

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WINTHROP WEALTH

As a wealth management firm, we are inundated with a never-ending flow of predictions about what is going to happen in the markets. We also understand that our clients are not isolated from the constant barrage of news, noise, and prognostications as we often have conversations with our clients regarding a so-called expert's prediction on an upcoming market crash. In today's 24-hour news environment, with several financial television stations, radio networks, social media platforms, and countless publications, there is always someone willing to offer a gloom-and-doom outlook. Unfortunately, there is now an entire industry of people who offer nothing but predictions that the financial sky is falling. Like a broken clock, these doomsdayers are "right" every now and then when volatility increases and markets sell-off. Sure enough, during these stressful periods the media loves to amplify these bearish voices. Keep in mind that the media outlets are not paid to provide sound financial advice and negativity sells.

One of our favorite research pieces is called **"The Armageddonists"** from JP Morgan Asset Management. Armageddonists are defined as the "market-watchers, forecasters, and money managers whose apocalyptic comments spread like wildfire in print and online financial news." JP Morgan published the original **report** with several failed bearish predictions over the period 2010 – 2016. The most recent iteration includes eight dire predictions from notable market commentators during the beginning stages of the Global Pandemic.

The following chart shows the performance of the S&P 500 from January 2020 through March 2024, and it highlights the date of each gloom-and-doom prediction. We know how this played out. The world did not end during the pandemic and after declining over a 6-week period from February to March 2020, markets began to recover significantly. Since the bottom on March 23, 2020, the S&P 500 has increased by over +150%. Anyone who acted on the bearish advise by selling their equities and retreating to cash likely would have missed out on the subsequent rally, and a taxable investor potentially would have generated a large capital gains tax bill in the process.

Source: Bloomberg and JP Morgan Asset Management.

Getting a prediction this wrong might make you rethink your process, methodology, or career. Or at least make you think about an apology tour. But that is not how most market doomsdays operate. An easy prediction is that during the next market selloff, the Armageddonists will be right back in the news to offer a view that their forecasts are coming true, and the worst is yet to come. Hopefully, most people will be smart enough to tune them out.

We constantly remind our clients to maintain a long-term viewpoint as **market declines are common**. Since 1928 the S&P 500 has generated a total annualized of return of about +9.6% despite averaging a decline of nearly -15% at some point each year (Source: Bloomberg as of 3/31/24). As stock market investors, volatility is the price we pay for being able to **compound returns** over long periods. Please see our **Winthrop Wealth Principles for Long-Term Investing**.

We typically offer the following advice in response to a dreadful market forecast:

- **Be a little bit skeptical**: an extreme market prediction like an upcoming crash or severe recession can often be designed to draw attention to the person making the forecast and/or their firm. The bold prediction is designed to sell you something and really boils down to, "the market might go down and the best thing you can do is buy my product." The person making the prediction often has an agenda and is looking to further their own self-interest.

- **Be aware of moving goalposts**: We often see the initial prediction but miss the follow up later that completely negates the original. Predictions constantly change. The investment phrase, "if you must forecast, forecast often" exists for a reason.

- **Understand the person and the data**: Anyone can make a bold market prediction. Consider the qualifications of the person, the data behind the prediction, and their past track record before you act.

Rather than worrying about a dire market prediction, our advice is to focus on what you can control, namely your investment process and philosophy. In our view, investors with a globally diversified portfolio and a long-term time horizon should remain optimistic. Markets have historically increased over time despite frequent drawdowns as successful corporations have been able to figure out ways to generate profits through advances in innovation and productivity. To capitalize on the power of compounding, we believe in the benefits of staying **D**isciplined, **O**pportunistic, and **D**iversified, while striving to **M**itigate fees, taxes, and expenses.

- **Disciplined**: consistently applying our investment process and philosophy, which are grounded in a long-term approach.

- **Opportunistic**: rebalancing, repositioning, and tax-loss harvesting to take advantage of market volatility and dislocations.

- **Diversified**: seeking to ensure that portfolios are properly allocated across and among asset classes to enhance consistency.

- **Mitigate**: striving to avoid unnecessary disbursements, including fees, taxes, and expenses.

In our opinion, adhering to a structured process and executing on all these components should help keep our clients on track toward pursuing their long-term objectives. *Historically, equity markets have recovered from recessions and downturns. Past performance is no guarantee of future returns. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.*

At Winthrop Wealth, we follow a **Total Net Worth Approach** to wealth management that combines both comprehensive financial planning and investment management. The financial plan helps define cash flow needs, seeks to optimize account structures, considers tax mitigation strategies, and determines the appropriate asset allocation based on the client's willingness and ability to take risk. Based on the output of the financial plan, our investment management process designs a well-diversified portfolio constructed with a long-term methodology based on prudent risk management, asset allocation, and security selection. *For clients who receive both financial planning and investment advisory services under agreement. No strategy assures success or protects against loss. Investing involves risk, including loss of principle.*

Armageddonist Forecast:

Date	Armageddonist	Quote
March 4, 2020	David Stockman	"The stock market is heading not only for another 50% correction (1600 on the S&P 500), but also a long L-shaped bottom rather than a quick V-shaped rebound which occurred after 2009." - Published note on PeakProsperity
March 24, 2020	Nouriel Roubini	"With the COVID-19 pandemic still spiraling out of control, the best economic outcome that anyone can hope for is a recession deeper than that following the 2008 financial crisis... The risk of a new Great Depression, worse than the original — a Greater Depression — is rising by the day." - Published note on Project Syndicate
March 25, 2020	Peter Schiff	"What the Fed is doing is extremely bearish for the U.S. economy... It ensures that this recession, depression that we're entering is going to be extremely brutal in the inflation that is going to ravage the economy, particularly investors and retirees." -FOX Business
March 26, 2020	John Hussman	"I continue to expect the S&P 500 to lose about two-thirds of its value over the coming years." - Hussman Funds
March 31, 2020	Jeff Gundlach	"The low we hit in the middle of March ... I would bet that low will get taken out... The market has really made it back to a resistance zone and the market continues to act somewhat dysfunctionally in my opinion... Take out the low of March and then we'll get a more enduring low." - CNBC
April 1, 2020	George Soros	"We're going to have the worst bear market in my lifetime." - Business Insider
April 23, 2020	Albert Edwards	"Many equity bulls think it is inevitable that massive central bank liquidity will boost equity prices. This strikes me as ludicrous... The collapse in profits is highly likely to fatally undermine the argument that equities can look through the valley. I expect instead ample liquidity to flow into government bonds." - Business Insider
May 12, 2020	David Rosenberg	"So even as the stock market is telling you that it is all figured out, I can assure you, what we face at this very moment is a highly uncertain economic future, and unfortunately, most of the longer-term risks are to the downside, not the upside. We are in a depression, not a recession. It's a depression. I didn't say the Great Depression; it's a depression," Rosenberg stressed. "And I think the dynamics of a depression are different than they are in a recession, because depressions invoke a secular change in behavior. Classic business cycle recessions are forgotten about within a year after they end. At a minimum, depressions entail a prolonged period of weak economic growth, widespread excess capacity, deflationary pressure and a wave of bankruptcies." - Advisor Perspectives

Source: JP Morgan Asset Management.

The Armageddonists

Cembalest, Michael. (February 2024). JP Morgan Eye on the Market, Amargeddonist Update. https://am.jpmorgan.com/us/en/asset-management/institutional/insights/market-insights/eye-on-the-market/five-easy-pieces/

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DISCLOSURES