Casey Mullooly: Hello and welcome back to the Mullooly Asset Podcast. This is your host, Casey Mullooly, and I know you can't see us, but we're recording this at our new office. That's right. This is our first podcast episode at the new office. Same old style. I've got Tom and Brendan here with me this week, and we're going to jump right into it, hope you enjoy. So, we're recording this August 26th of 2021.

Casey Mullooly: And it's now official. The S&P 500 has hit a new high, new all time high, in every single month of this year. Eight for eight, it's batting a thousand, guys.

Tom: It kind of reminds me of 1987. Cause that's exactly, it's exactly what happened in 1987. We hit a new high in the S&P and the Dow for the first eight months of the year. And then the next two months were less than optimal.

Casey Mullooly: Did something big happen? I've seen that, I've seen that comparison being made online on Twitter as well. But only one time in 2014 did the S&P 500 make a new high in every single year. So, this is not normal and we shouldn't get used to this.

Tom: You took the words right out of my mouth. That was exactly where I was going with this. So, the returns that we've seen really since March of 2020, so now a year and a half, we've gone 18 months, these returns are not to be expected.

Brendan: Yeah. I mean, so on the other side of that coin though, I would say that doesn't necessarily mean that we have to have like a Black Swan event on the horizon just because things have been really good. It might just mean that we have normal volatility that won't feel normal when it comes down the line, it doesn't mean we have to crash like we did in 1987.

Tom: Volatility after periods, like what we're going through now, volatility always feels like it's above average when we start getting it. But then when you start looking at the numbers they're, they actually are pretty normal. So, we'll have these periods where we have very low volatility in the market and the market tends to go in one direction.

Brendan: Well, just, I mean an easy comparison in recent memory, maybe not the same kind of stat line but similar lack of volatility, was 2017. Market was very good and we had very little volatility, very little in terms of downside events to talk of. And 2018 turned out to not be such a great year in the market. I think we finished a year like down 5% or something like that on the S&P, which was the first down year in a decade. So, I mean far from catastrophic, but I think that usually if you're in a good period of time, meaning low volatility, you should anticipate a return to at least normalcy on the other end of that. It doesn't have to correct in an equal and opposite manner, meaning catastrophe on the other side, but you're probably going to return to closer to historical averages, meaning we're probably going to see a five or a 10% drop at some point. And that's okay. It's normal.

Casey Mullooly: It begs the question though, with consecutive months of hitting all time highs, it makes me think of people who want to wait because the market can't keep going up like this. And they see a stat like this, where the market has hit all time highs in eight consecutive months, and they're like, "Oh,

I'm going to wait." And -

Tom:
[crosstalk 00:03:44] It just continues to make new highs.

Brendan: I also think that a person who's afraid of putting money to risk at all time highs when things are good is the absolute last person who's going to step in and be a buyer when we do get the correction they think we're quote unquote due for, as if that's a thing that exists on like a clock that we can say that we're due for anything. That's not how the market works, but you're going to buy when we're off 20%.

Tom: Yeah, I agree, yeah, those people vanish. They just vaporize when the market's down.

Brendan: I might consider myself amongst them. And that's why a dollar cost average. I'm not trying to wait for a fat pitch, I'm going to be just as nervous as everybody else if we're 20, 30% off of the highs. It'd be a great buying opportunity for those who have the courage then. But I think the people who talk about that, and the people who actually do it, big, big discrepancy there.

Tom: So it's, when we do get the eventual pull back, whether it's 5% or 10%, we'll get some folks that will come out of the woodwork and call and say, "Hey, you know, what do you think we should be doing?" Well, I think we should be acting normal because this is part of what we bake into the cake when we talk about what to expect from the market. The line that you coined, I don't know if you got it from somebody else or came up with it on your own, but the market returns are lumpy, they're like getting ketchup out of the ketchup jar. So, they're, some are going to come all at once and nothing for maybe a long time. But there's all this talk about we haven't had a 5% drop for how many trading days?

Casey Mullooly: Over 200 trading days now. Which is about 10 months.

Tom: [crosstalk 00:05:28] So, we're talking about 10 months of basically no direction. I mean, one direction only.

Casey Mullooly: Yep.

Tom: It rarely stops at exactly 5%, right?

Brendan: Oh, yeah. I mean, we talk about five and 10% just because they're thresholds, but we could solve not having a five or 10% pull back in 10 months by having a 17% pullback because it qualifies as both of those things and more. And that's usually how it goes. And that's, again, I wouldn't limit your statement about five or 10% being normal, and probably nothing that we need to make wholesale changes over when we get to 17 or, I mean we were, in March of 2020, down 35% on that, on the Dow I think. And we build portfolios that take into account that that is going to occur too.

Tom: It's also important to know that sometimes where markets get overbought, that's a technical term and I don't want to turn this into a technical lecture, but markets can relieve that overbought status by

going sideways for three months, a year and a half. So, we've had periods, recently, where the market has actually gone nowhere for a year and another one a year and a half. These things do happen.

Brendan: I don't think that it's out of the realm of possibility that we're actually in one of those periods now for the majority of stocks. So, Kase, I know you had a stat that, these stats are talking about the headline index is making new highs, S&P 500. However, if you give another stat that's worth sharing that maybe speaks to the point of us maybe being in a period of time where people feel otherwise despite market headline indexes making new highs month after month.

Casey Mullooly: Right. So, I pulled this from Andrew Thrasher on Twitter, who does great market research. And this was a tweet from last week when the S&P was down about 3% over two days. And at the time the S&P was down 1.77%, but the average stock in the S&P 500 index was down almost nine and a half percent. So, the index was down way less than its components, which is kind of a broader trend that we've been seeing play out for the last couple of months now as leadership has kind of turned over and turned back over in the market. So, it speaks to what you guys were talking about how, yes, certain indices may be hitting all time highs, but the average stock is kind of floundering a little bit.

Tom: Yeah, there's so much to unpack with a statement like that. It makes me think about that period from mid 2015 through Brexit in mid 2016, it's unfortunate, where we had a really good capsule of time where we could talk about what the market did, but it didn't fall into a 12 month calendar.

Casey Mullooly: Yeah, we should come up, we should come up with a name for that time period.

Tom: Yeah because we had just, we had that year where the market, the Dow and the S&P basically went nowhere. But a lot of stocks went down, small cap stocks were down over 30% during that time period. Way, way, way more volatile. And I think that's, that's why you get inquiries, you get calls from clients like, "Hey, the S&P and the Dow seem to be doing just fine, but how come we're not? Like what's going on with that?"

Brendan: Yeah, just to maybe explain how the average stock in the S&P could be down more than the index, just to remind folks that the S&P 500 is a market capitalization weighted index, so the bigger companies have a larger weight, meaning of those companies that are weighted pretty heavily in the index are doing okay or doing well even, they could be propping up the index where some of the smaller companies are really getting clobbered. And that's to your point, that's happening within the large cap space there, but then we're also seeing that play out within things like mid-caps and things like small caps, which we allocate to as part of a diversified portfolio and they're to our benefit often times.

Brendan: I mean during the fourth quarter of last year, and the first quarter of this year, if you didn't have small and mid caps, you were behind because the large caps were the ones holding everybody back. But that's kind of flipped here as we've progressed through the year. And that's, I think that stat speaks pretty well to it where you could, like you said, look and be like, "Hey, Dow's at new highs, like my portfolio isn't." Why is that? I mean, there's got to be a good reason and they're easily diversified if you only want to do in 30 stocks. And that's what we would be doing, and we'd done the Dow, but we don't.

Tom: Unfortunately, they don't ring a bell when it's time to flip from large cap to small cap or to mid cap or to bonds. They don't ring a bell when that happens. And so we have to take the approach that Brendan outlined, we need to have a diversified portfolio. Some parts are going to be doing better than others all the time.

Brendan: They're all going to get to the same point in the future. We anticipate they're all going to do well over time, that's why we're allocating to them because we have a horizon that's decades long. So, we're going to get to the same point, we're going to take different paths to get there. And if we combine these things it's going to smooth out the ride because one's going to pick up the slack when the other one's lagging behind and vice versa.

Brendan: But you're probably going to hate the one that's slacking all the time and there's always going to be a slacker in the portfolio.

Tom: Always.

Brendan: It doesn't mean you got to delete them because I think if you are thinking along those lines you're probably going to bottom ticket and delete them at the wrong time. And timing that, as Tom said, there's no bell, there's no signals, nothing that could do better than just having the exposure you need in equal amounts over time.

Casey Mullooly: So, what you're saying is that time in the market is more important than timing the market?

Tom: I think we just did a video about that, maybe we can link to it.

Casey Mullooly: I will definitely link to it in the show notes.

Tom: Yeah.

Casey Mullooly: It bodes well for what we're going to talk about next, which is an interesting chart, I guess you could call it, from, I got this, I saw it from Drew Dixon on Twitter, who I think got it from Eddie Elfenbein, who got it from Reddit. So, it kind of made the rounds. And it's a breakdown of, the one that Drew did is a breakdown of the monthly investment required to have a $2.5 million portfolio by the time you are 60 and the different returns that you need to achieve in order to get to that goal. So, if you were to start with a monthly investment of, let's call it $3,000 per month, you would only need to achieve a two and a half percent return in order to have 2.5 mil by the time you're 60.

Tom: But what age are you starting at?

Casey Mullooly: You're starting at age 20 there.

Tom: So, at age 20, putting three grand a month away, first of all -

Brendan: Into 100% bonds, let's call it.

Tom: Yeah, at two and a half percent, right?

Casey Mullooly: Pretty conservative.

Tom: Yeah, I think realistically it's hard to do, but it does paint the backdrop for, as you move through the chart, the numbers tend to explode.

Casey Mullooly: Right. So, on the other end of the spectrum, starting at age 20, if you were to achieve 15% annual returns, you would only need to invest $81 per month.

Tom: $81. That's beer money.

Casey Mullooly: Yeah. I mean that's more realistic for people in that age bracket. I mean I don't really know anyone who's 20 years old saving $3,000 a month.

Tom: Right. It also means that you can start at a very young age with a very small amount of money if you're consistent.

Casey Mullooly: Going out the age spectrum, if you, so you were, this is, you're starting at age 55, which is as high as it goes, you're going to be, you only have a five-year time horizon here. If you were to achieve two and a half percent annual returns you need to invest just under $40,000 a month to have two and a half million dollars by the time you're 60. Which is just not seemingly possible.

Tom: 40 grand a month saved a month.

Casey Mullooly: Yeah.

Tom: At age 55, starting at age 55, to get to two and a half million dollars.

Casey Mullooly: It just goes to show how starting early is, there is no advantage comparable to starting to save money earlier in your life.

Tom: Yeah.

Brendan: So, the variables in this chart, of which there are three, I'm going to rank them in terms of importance. When you start the amount you save and the rate of return last, meaning like you, and you have so much more control over two of those than the one I just ranked last. So, you can control when you start saving, you can control to at least some degree how much you can save per month. What you earn in the market is not necessarily up to you. You can position yourself to accomplish what you'd like, but that's obviously not guaranteed.

Brendan: And it's interesting too that the longer your time horizon, the better your odds of

compounding at a higher radar because you've got more time to leave it alone and grow the snowball. But that's, yeah, in terms of priority there, that's how that chart breaks down. But time in the market being the most important one, right? And then savings and obviously it's entailment.

Casey Mullooly: Yeah.

Tom: That's such a big factor. A lot of people come to see us and we start to put together a financial plan for them. And it seems, more often than I'd like, folks are interested in what can you do for us? Like how much can you make for us? And what they tend to ignore is our question. How much can you save per month or per year? Because that is really, that answer is going to drive the bus. So, if you are in a situation where you cannot save any money, we may be able to help you in terms of examining your expenses.

Tom: We want to get to a point where you can save money on a monthly basis, but it just seems like a lot of people, they just want to know like, "Okay, how much is, how, at what kind of rate is this money going to compound if I can save money?" And I think they're putting the cart before the horse. We have to really look at what can you save and how can we safely allocate that money into something that you can live with? That you can sleep at night knowing, "I've got some money at risk, I've got some money safely tucked away for an emergency.", those sort of things.

Brendan: Yeah, optimizing for the investment returns is the last step of the process, but people always want to talk about it first.

Tom: Yeah.

Brendan: And it's definitely, I mean it's going to factor into your results, meaning like if you, if you're allocating a hundred percent to bonds, you're going to have a different time than somebody that allocates a hundred percent to stocks. But before you even get there you need to consider some important factors that are going to have way more of an impact on the end result than that optimization. But that's the one that gets force fed down everybody's throats because they think that's like, that's what they're supposed to be talking about because that's what the financial news channels talk about all the time, is optimizing for returns.

Tom: And I think that that leads, that comes back to us, like you said, where people come to us because that's what they think is the most important thing is their returns. And then we kind of have to be like, "Well, there are, like you said, two things that are way more important than returns and they are, they're within your control, whereas returns, we have a good idea of what your returns are going to look like over 10, 20, 30 years, definitely not six months or a year. But the longer the time horizon the better idea we have of what the returns are probably going to look like. But we have to shift the focus on to things that we actually can control.

Tom: It's pretty interesting, and this may bring the conversation full circle, but depending on what's happened recently in the market really has an impact on what clients want to talk about and what their expectations are too. And I think the same thing is going to happen. We'll see in real estate as well, right

now real estate prices seem to be going up every day. For, as we said, just a few moments ago, the S&P has made a new high every single month this year. People are like "I know", I'm using air quotes, "I know I'm going to be able to make money in this stock market. Or, "We should be building a financial plan compounding at 12 or 15% a year because that's what stocks have done over the last couple of years.

Tom: There's going to be a time, I know because I've gone through this, where you're talking to clients and they're like, "We're not going to make any money from stocks, we're just not." Because for the last six months, or the last 12 months, the market is flat or the market is down, or "I just don't want to go into the market right now because it looks terrible." So, bringing this all the way back to what we started talking about, it's interesting how the headlines can really shape people's opinions about what the near-term future is going to look like.

Brendan: Yeah, in fact, if you were going to do anything, not that this is like foolproof either, but you should almost be doing the opposite, in terms of expectations at least. Just as like loose guidelines. Like if it's, if things have been good then you should probably temper your expectations. And if things have been bad you should probably be a little more optimistic than it might feel natural to.

Tom: Well, we talk about what to expect from markets. And we, I mean tell me if I'm off base, Brendan, but it seems like we're perpetually talking people down to lower expected returns for the future.

Brendan: Right, yeah, and it's not because we're positioning them in such a way to reflect like our bearishness or anything like that. It's, we're not tempering expectations because we think that stocks are going to crash or that we need to like buy puts or buy gold or something. We're not like zero hedge advocates on this podcast. I'm going, I'm bashing them again I think for the second time.

Casey Mullooly: It's all right, they deserve it.

Brendan: Yeah, you're probably right. But, so we, we're allocating the portfolios in such a way that we hope that the returns are going to be what they have historically or what they've looked like over the last couple of years, but we know that we're going to go through stretches where people are despondent and we need to factor that in too. We're going to have year or two or three stretches where stocks are just meandering or sideways, where they look bad in comparison to the alternatives out there in the world. And it's just realistic to try that. But yeah, it seems of late that since the line has gone up for the last couple of years, meaning the stock market, that nothing like press to drive sentiment, right?

Speaker 4: That's right.

Casey Mullooly: So, a lot of market talk this week. We are heading into September. So, we'll see if the S&P can make it nine of nine. We're not making a prediction either way, but -

Tom: Historically, a sloppy month. So, people say, "Oh, October is going to be really bad." I'm like, "You know, if you look up the data, September is the worst month of the year." But we've had great Septembers, so -

Casey Mullooly: It's happened that way, but the stock market also doesn't know what month it is.

Tom: Yeah. They just don't know, they don't know when the calendar turns from one year to the next, they don't know it's the end of the quarter.

Casey Mullooly: Summer's over, everyone's hitting the desk again, volatile, the trading volumes going to go through the roof.

Tom: Yeah. I mean there's so many things, so many different news factors that can impact the markets on a daily basis. If the, if your interest is in what's happening daily in the stock market, you're probably not listening to this podcast. There's going to be news every day that's going to drive markets

Brendan: Interesting, not actionable.

Tom: Well said, well said. There's going to be, this weekend, we've got the Fed virtual Jackson Hole thing, where in past years, they've said something very memorable or impactful. We've got -

Brendan: We'll be parsing the minutes for sure.

Tom: I know you're kidding about that.

Casey Mullooly: Check back, check back next week for nine key takeaways from Jackson Hole.

Brendan: Listen, it's not as if we aren't aware of this stuff, like we just put on blinders. I'm paying attention as much as anybody else out there. However, if you're making portfolio adjustments based on the comments made at Jackson Hole, you're an insane person.

Casey Mullooly: Yeah, yeah. So, that's going to wrap it up for episode 371 of the Mullooly Asset podcast. Thanks as always for listening and we'll see you on the next one.

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