LCBS-2022-06-09-PowerOfFullMarketIndexes.pdf

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The Power of Full Market Indexes

The stock market is full of varying types of investments. Few make more money in the long haul than the Full Stock Market Indexes. About 12 years ago, I read the book "The Little Book of Common Sense Investing" by the late Jack Bogle. Jack Bogle was one of the great minds in the investment world and his Vanguard group of investments is still one of the best. In his book, he explained that only 2% of the people making marketing decisions on Mutual Funds can outperform the full stock market index. And if you invest your money with one of those in the top 2, next year they will not be in the top 2% slot. One exception to that rule was Peter Lynch and his fantastic Magellean fund. He consistently outperformed the market for many years. But the truth of the matter is that no matter how smart you are, you are hard-pressed to beat the 'average' of the whole stock market. I really took this to heart and over the past 12 years, the full stock market ETFs in my portfolio has outperformed all other investments.

Over the past 15 years, the stock market has consistently put out average yields above 12%. Years like 2022 are a misnomer in that we have so many things wrong in our world that there is no consistency to the market.

Schwab investments printed an article two weeks ago about the 2022 phenomena where both the stock market and the bond market lost money. This has only happened twice in the history of the stock market.

Here is a portion of the Three Bears Market letter put out 3 weeks ago by Schwab.

THE THREE BEARS

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Stocks, bonds, and cash are all in a bear market or teetering on the edge of one—a very rare event. Over the past 72 years, there have only been two periods with a triple bear—both took place in the 1970s.

- On Friday, the S&P 500 and MSCI World Index both briefly slipped into bear market territory before recovering by the end of the day, closing very near the -20% threshold from the market peak on January 4, 2022.

- U.S. bond yields have jumped in 2022, posting their worst start to a year on record. Other bond markets around the world have also performed poorly. The trend in German bond yields reflects the U.S., trending lower since the early 1980s until recently. Both the U.S. and German 10-year bonds have suffered a loss of just under 10% on a total return basis so far this year.

- The return on cash, represented by three-month U.S. Treasury bills, has been lagging inflation, resulting in a negative return on an inflation-adjusted (or real) basis for many years. The surge in inflation over the past year has pushed the real return deep into negative territory, similar to where it was very briefly in both 1951 and 1980.

A bull market is likely to return, as it typically has. But when? Well, every period is different and there can be no guarantees. It is worth noting however that the prior periods featuring any of these three bears were often very brief.

- **Occurrences of cash bear market extremes** historically marked a peak in inflation. We may already be seeing signs that inflation peaked last month, such as falling input prices and excess inventories reported last week at big box retailers like Target, Kohls, and Walmart (which we had projected in the November 2021 article Will Shortages Lead To Gluts?)

- **Emergence of climbing global bond yields** since 1980 have been consistently followed by some deflationary event that contained the rise: 1986 oil crash, 1989 fall of USSR, 1991 Japan going bust, 1998 Asian contagion, 2001 China joining the World Trade Organization, 2008 housing bust, 2011 Eurozone debt crisis, 2013 shale revolution, 2020 global pandemic. Perhaps another deflationary event may be just around the corner as risks of recession rise.

- **Once stocks breached the 20% threshold,** the time it took to reach their bottom before beginning a new bull market was often surprisingly short: 39 days in 1966; six days in 1987; 36 days in 1990; the same day in 1998; 12 days in 2011; the same day in 2018; and 11 days in 2020. The four exceptions to these brief periods were: the start of the 1970s when it took 117 days; the end of the inflation era in the early 1980s when it took 157 days; the early 2000s Tech Wreck where it took 595 days to bottom; and the 2008-09 Great Financial Crisis, which took 241 days.

So 2022 has been a really bad year for investors. As I mentioned in an earlier article, consider putting your money in Treasury I – Bonds until we get past this unstable market. They are currently yielding 9.62% for this six-month span. They reset in percentage every six months based on inflation and long-term 30-year treasury bill rate.

https://lifecanbesimple.net/blog/safe-place-to-invest-50-today

Back to the article for the day, why are full market indexes so wonderful? You get the best of it all. You are fully diversified over the entire market. While energy is up 60% this year, the S&P 500 is down a lot. I am estimating -7 to -8%. So overall, the market is down about 4%. So in a good year, you should see a 12 to 14% average if history repeats itself. There is no guarantee that it will, but people who stick with the market in both ups and downs seem to make the most money.

Three great ETFs (Exchange Traded Funds) that I have owned for years are the I-Shares ITOT, the Vanguard full stock market index VTI, and the Schwab Full Market Index SCHB. Another great one that is not the whole market but is the S&P 500 that is doing great is the Vanguard VOO. I read this week that renowned investor Warren Buffett has instructed his estate to invest his money into VOO giving you an idea of how much Warren Buffett regards this ETF.

Another good S&P 500 ETF is SPY.

Are these locks for profits? Not at all. But over time, I think you will find these to be some of the most steady and consistent investments. I have not been able to prove it yet, but I think that DGI investing may yield a bit more than the full stock market indexes, but only time will tell. DGI stands for Dividend Grow Investments. You are zeroing in on stocks that have long-term market increases of dividends with the ability to grow in value. I did an article on DGI investing:

https://lifecanbesimple.net/blog/dgi-investing

Consider the full stock market indexes in your investment plans. I try to keep at least 25% of my investments in full stock market indexes and have had great success with them over the past 20 years.

List of All Investment Articles

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