# The Benefits of Investing for the Long-Term

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At the end of the fourth quarter of 2016, the headline of our quarterly commentary read, “Now is the time to make money.” How presumptuous was that? It all depends on what the facts at the time were that led us to such a bullish conclusion.

We noted that the pundits, hungry for media attention, continue to spread their warnings of gloom and doom. Nothing sells investment newsletters quicker than fear-mongering.

We backed our optimism based on the anticipated tax cuts and other positive trends at the time. A lower corporate tax rate meant much enhanced corporate earnings. As earnings growth drives stock prices, a 20% gain in stock prices seemed on the cards for 2016. Alas, there were no tax cuts in 2016. The wheels of government grind excruciatingly slowly. Nonetheless, the S&P was up +12.0% in 2016, and then in 2017, when the promised tax cut appeared a distinct possibility, the S&P posted a +21.8% return on the year.

We warned that despite these cold calculated facts, in Washington, everything gets politicized, which is another way of saying that it will take a hardnosed approach from the new Administration to get the tax cuts past the know-nothings in Congress. Most Americans have some exposure to the stock market. Government workers indirectly own stocks in federal, state and municipal pension funds. Private pension funds hold stocks to the value of trillions of dollars. Many of these pension funds, especially those managed by the states, are struggling to match their investment assets with their underlying pension benefit obligations. We argued that a corporate tax cut would most certainly relieve these funds of most of their pension deficits and place them on a much sounder financial footing.

We cataloged the many contrarian voices at the time from the likes of Professor Nouriel Roubini, former US Treasury Secretary Lawrence Summers, Jim Rickards, editor of financial newsletter Strategic Intelligence, and others. **To rebut the pessimists, we quoted Peter Lynch of Fidelity Investments’ fame, who said that “far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in corrections themselves.”**

Long before the fourth quarter of 2016, in Bastiat Capital’s Q3 2014 and Q4 2014 commentaries, we put forth a case for the S&P 500 trading at close to 3,350 by 2020. We selected thirty years running from 1990 to 2020. The global economy moved into high gear after 1990 with the fall of the Berlin Wall, the liberalization of the Chinese economy, the era of the personal computer, followed by the internet and other technological advances. These facts made 1990 a good starting point for the following analysis.

The S&P 500 generated annualized returns of +8.9% over the last 130 years. From January 1, 1990, to January 1, 2015 (25 years), the S&P 500 returned +7.6% p.a., i.e., below the long-term average. The S&P 500's return over the past 15 years was only +2.63%, a function of the over-extended valuation multiples at the end of 1999.

We argued at the time that, "If the S&P 500 ends at 3,350 on January 1, 2020 (+60.3% above its 2014 close), the 30-year return from beginning 1990 to beginning 2020 would be +8.0% p.a. The index would have had to compound at +10.2% p.a. to close at 3,350 on December 31, 2019, for an average return of +8.0% p.a. over the past 30 years.

"If this sounds all too bullish," we wrote, "assume the index closes at 2,630 (+27.7% above 2014's close) by the end of 2019. Based on this assumption, the return over the next five-year return would only be 5.0% p.a." We concluded that it was not unrealistic for stock investors to expect annual returns between +5.0% and +10.2% p.a. until the end of 2019. We stressed that this estimate did not preclude perhaps one year of negative returns (the S&P 500 posted a negative return of -4.38% in 2018). "Over the long-term, those who stay the course will earn acceptable returns on their capital, unless the long-term average means nothing, and we are in a new era of below-average market returns. It is hard to make a case for such a scenario. Stay invested. Don't let the know-nothings stir up unnecessary fear and anxiety," was our advice.

On December 31, 2019, the S&P 500 closed at 3230.78, which was a mere 3.5% below the price target that we argued in 2014 would be a reasonable estimate by the end of 2019. **Our clients remained fully invested in line with our conviction. As a consequence, their wealth has compounded at rates that exceeded the S&P 500 Total Return index.** At the end of 2019, Bastiat Capital's composite five-year return was +14.33% p.a. compared to +11.72% p.a. for the S&P 500 Total Return. For 2019, our composite return was +40.27% compared to the +31.49% return on this index. ***All our returns are net of fees***.

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