CLEARWATER CAPITAL

Thought · Leadership

THINK17

August 2017

Portfolio Insights

Markets at Record Highs

With the market reaching new highs day after day, many investors have become increasingly concerned that this bull market may be nearing an end.

Following the concept of "confirmation bias", many investors will interpret record highs according to how they are currently invested. For investors who may be fully invested, the market reaching record highs brings great excitement and satisfaction. Their question asks only if it is time to "lock in some of the gains." Others, who for whatever reason have not participated in the run, typically conclude that the market is grossly overvalued and fear getting in "at the top."

One perspective anticipates the possibility of further gains, while the other fears a dramatic downturn in equity prices. Which perspective is correct?

While no one knows for sure what the future holds, the occurrence of repeated record highs does not in itself portend a market top. If anything, historical data supports the notion that equity prices can still power higher following a series of record closings. Whether the markets continue to drive higher, trade sideways, or begin to give back some of the recent gains, it is interesting to examine what history has to say about the matter.

Accordingly, the Investment Policy Committee at Clearwater Capital recently took a deeper dive into the data. After all, the best viewpoints are often drawn from a thorough understanding of the facts, while keeping emotions held in check. We know historical perspective alone does not predict future market movement, we are comfortable with the belief that future market movement will look *something* like the past.

	1 Month	3 Months	6 Months	1 Year
Hitting a new record high following a current record high	91%	97%	98%	99%

Source: LPL Research, Bloomberg, S&P500 Index (6/22/17)

Using the S&P500 as our proxy, we see that 1 month following a record high, the market went on to reach another all time high 91% of the time. The odds of the market reaching another record 3 months later increase to 97%. Extending the time frame out to 1 year, we see the market hitting another record high an astonishing 99% of the time.

While history would appear to predict further gains are to come, we believe it is better to remain disciplined with regard to investment strategy, and committed to appropriate planning horizons.

James F. Chapman

James F. Chapman AWMA®, is a Wealth Advisor at Clearwater Capital Partners, LLC. After completing six consecutive years in the firm's analyst residency program, James has experienced considerable development in his knowledge of Wall Street and in the disciplines of wealth management.

Follow James on Twitter @jamesfchapman94

New Location

The move to our new location is now complete. Please note our office address is now:

2800 W Higgins Road, Suite 1025
Hoffman Estates, IL 60169

Our phone number remains:
(847) 841-8650

As with all cases, a 1 year time horizon is a bit too narrow a view. Investing is a process that we advocate be conducted over long-term time horizon. Therefore, we prefer to look past the scope presented in the table above. After all, what is accomplished by reaching another all time high within a year if those gains are given back in periods that follow?

So the question really becomes, how sustainable are record levels over a longer-term investment horizon? Historically speaking the answer is fairly sustainable. The table below takes a look at the long term difference between investing at record highs vs not at record highs.

	Average Cumulative Gain Investing at :		**Probability of a positive return when investing at:**	
Investment Horizon	All time High	Not All Time High	All Time High	Not All time High
1 month	0.5%	0.6%	59%	60%
6 Months	3.9%	3.7%	74%	66%
1 Year	7.9%	7.6%	69%	68%
3 Years	20.3%	23.3%	78%	77%
5 Years	35.4%	42.9%	71%	79%
10 Years	75.7%	104.5%	76%	88%

Source: LPL Research, Bloomberg, S&P500 Index (6/22/17)

Again analyzing historical data from the S&P500 back to 1928, we find that an investor who puts money to work at an all time high will be up 0.5% 1 month later. Down the road after 3 months those funds have appreciated on average by 1.8%, and then 7.9% after 1 year. The 1 year gain figure when buying at an all time high is slightly higher than the average return over that time period of 7.6%.

More importantly, the probability of experiencing positive returns following record highs is impressive over the 1, 3, 5, and 10 year horizons. Considering the long-term planning horizons most investors face, one should not be terribly concerned about having monies in the market when trading at record levels.

There is one significant risk in this analysis that must be pointed out. For those investors with short-term horizons, investing at all time highs comes with a higher level of risk. Markets can become vulnerable to downturns and valuations can swing wildly over short periods of time. For these reasons we do not believe investors with short-term horizons are well served by equities; whether at record highs—or not.

With exception of the Great Depression, the longest span of time to recoup the losses experienced during a recession was 7.5 years. In 1973 when the market dropped 48%, it returned to all time highs 7.5 years later. In 2007 when the market dropped 57%, the losses were recouped by March 2013, 5.5 years later. While these times may be emotionally challenging, we know that markets do recover over reasonable periods of time. Clearly, discipline plays a major role in sticking with the plan long enough to regain market losses.

Investors who are reluctant to put cash to work during market peaks, or are tempted to sell during periods such as these, could be misjudging the opportunities that exist over longer periods of time. Staying invested at record high levels, especially several years into a bull market, can be unnerving. Historical data however provides reassurance that investors with time horizons of more than five years stand a very good chance of positive returns, even if they have the misfortune of buying ahead of a downturn.

Bottom line, record highs are only numbers. The fundamentals will continue to drive markets over time and we believe it is unwise to attempt to time markets - no matter what the timing strategy might be.

CCP | CLEARWATER CAPITAL PARTNERS

IMPORTANT DISCLOSURES

THIS COMMENTARY HAS BEEN PREPARED BY CLEARWATER CAPITAL PARTNERS, LLC. THE OPINIONS VOICED IN THIS MATERIAL ARE FOR GENERAL INFORMATION ONLY AND ARE NOT INTENDED TO PROVIDE OR BE CONSTRUED AS PROVIDING SPECIFIC INVESTMENT ADVICE OR RECOMMENDATIONS FOR ANY INDIVIDUAL.

ALL ECONOMIC DATA IS DERIVED FROM PUBLIC SOURCES BELIEVED TO BE RELIABLE. TO DETERMINE WHICH INVESTMENTS MAY BE APPROPRIATE FOR YOU, PLEASE CONSULT WITH US PRIOR TO INVESTING. INVESTING INVOLVES RISK WHICH MAY INCLUDE LOSS OF PRINCIPAL.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of August 2017, and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by Clearwater Capital Partners, LLC to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy.

Past performance is no guarantee of future results. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader. Investment involves risks. International investing involves additional risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. Index performance is shown for illustrative purposes only. You cannot invest directly in an index. MSCI KLD 400 Social Index is a registered trademark of MSCI Inc. Because of the narrow focus of SRI / ESG investing, SRI / ESG investing will be subject to greater volatility than investing more broadly across many sectors and companies.

www.ccpwealth.com (847) 841-8650