First Ascent Asset Management

YOU HAVE CONTROL OVER YOUR OWN INVESTMENT SUCCESS

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YOU HAVE CONTROL

The Key to Investment Success

Most people are surprised to find that they hold the key to their own investment success. But it's true. An investor's behavior is the most important factor in determining success.

Here's why. You can be invested in the most perfect portfolio, but if you abandon the strategy before it has a chance to work for you, you won't be a successful investor.

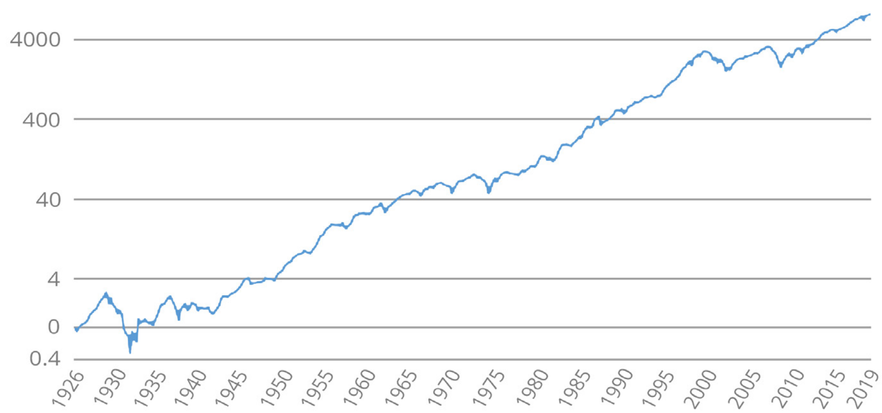
Most people abandon their strategy for one of two reasons. Either they lose heart because of declines or volatility in the market, or they become fearful based on world events.

Neither of these reasons justifies abandoning an otherwise sound investment strategy.

Be Strong in the Face of Market Declines

Over time, the stock market goes up. As you can see, the road is bumpy, but the long-term trend is distinctively upward. From 1950 through 2019 the stock market rose on 53.7% of the trading days. On average, it rises a little more on up days than it declines on down days.

Growth of the US Stock Market
1926-2019



US Stock Market as represented by the Ibbotson SBBI US Large Stock index. Growth is shown on a logarithmic scale to more clearly highlight growth through history. Data Source: Morningstar.

This pattern is not random or accidental. There's a reason for it. The market is ultimately driven by increases in the earnings of the stocks traded on the market. If earnings continue to increase, the market will continue its upward trend.

But will earnings continue to rise? Over time it is highly likely that they will because earnings increases are driven primarily by human behavior that is hardwired into our being.

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Maslow's famous "hierarchy of needs" tells us that people are driven by the desire for survival, security, love, status, and self-actualization. In other words, people strive to improve their lot, provide for their families, gain approval and recognition, and become the best they can be.

These forces are expressed through hard work and creativity. When individuals band together in collective efforts, these forces can be amplified. In a commercial context, they produce growth, increases in productivity, and innovations—the drivers of increased earnings.

Our global community is comprised of 7.8 billion people striving to improve their personal situations and the lives of those they care for. If they have the freedom and incentives to do so, they will continue to find ways to create value through their labor. Neither bear markets, nor discouraging headlines will deter them. In fact, adversity may accelerate their efforts. Necessity is the mother of invention.

Bear markets are unpleasant, at best, and can be downright scary. But they are temporary conditions that pale in comparison to the power of bull markets.

Since 1926, there have been 11 bear markets and 12 bull markets. The average bear market lasted just 1.3 years, while the average bull market lasted 6.6 years. Average losses from bear markets were a cumulative -38%. Average gains from bull markets were +339%.

A History of Bull and Bear Markets

1926-2019

This chart shows historical performance of the S&P 500 Index throughout the U.S. Bull and Bear Markets from 1926 through 2019. Although past performance is no guarantee of future results, we believe looking at the history of the market's expansions and recessions helps to gain a fresh perspective on the benefits of investing for the long-term.

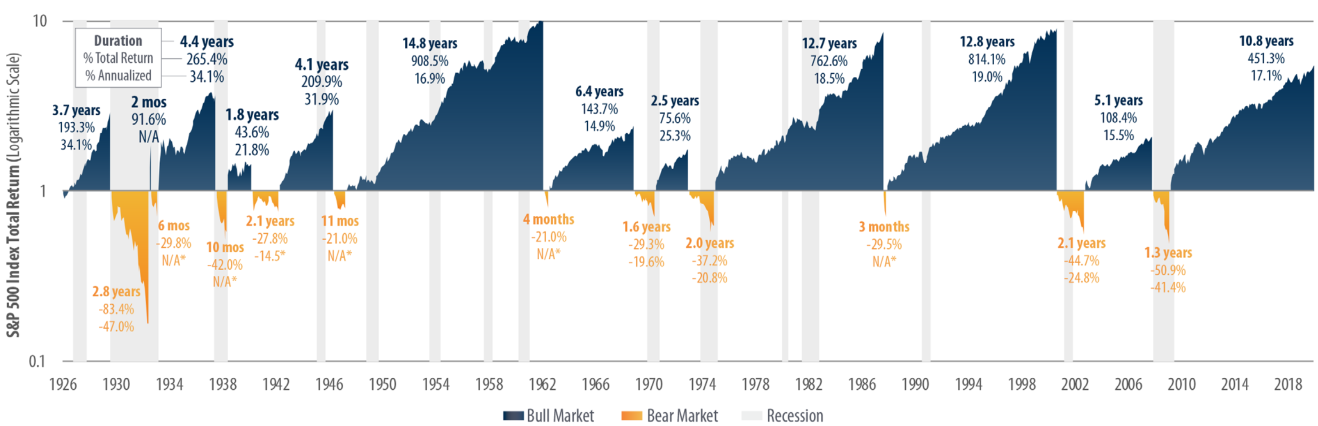
- The average **Bull Market** period lasted 6.6 years with an average cumulative total return of 339%.
- The average **Bear Market** period lasted 1.3 years with an average cumulative loss of -38%.

BULL

From the lowest close reached after the market has fallen 20% or more, to the next market high.

BEAR

From when the index closes at least 20% down from its previous high close, through the lowest close reached after it has fallen 20% or more.



Source: First Trust Advisors L.P., Bloomberg. Returns from 1926 - 2019. *Not applicable since duration is less than one year.

These results are based on monthly returns–returns using different periods would produce different results. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results.

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It would be nice if it were possible to benefit from the bull markets and avoid the unpleasantness of the bear markets, but, alas, it is not. Securities markets are complex adaptive systems that are driven by many variables. It is impossible to account for all of them.

There are no academic papers or rigorous examinations of market timing systems that support the consistent success of that approach to investing. Many demonstrate its shortcomings. As legendary investor, Warren Buffett put it: "…the only value of stock forecasters is to make fortune tellers look good."

The only reasonable alternative is to remain invested through the difficult times. This requires strength and resolve. But cultivating this capability is essential for investment success.

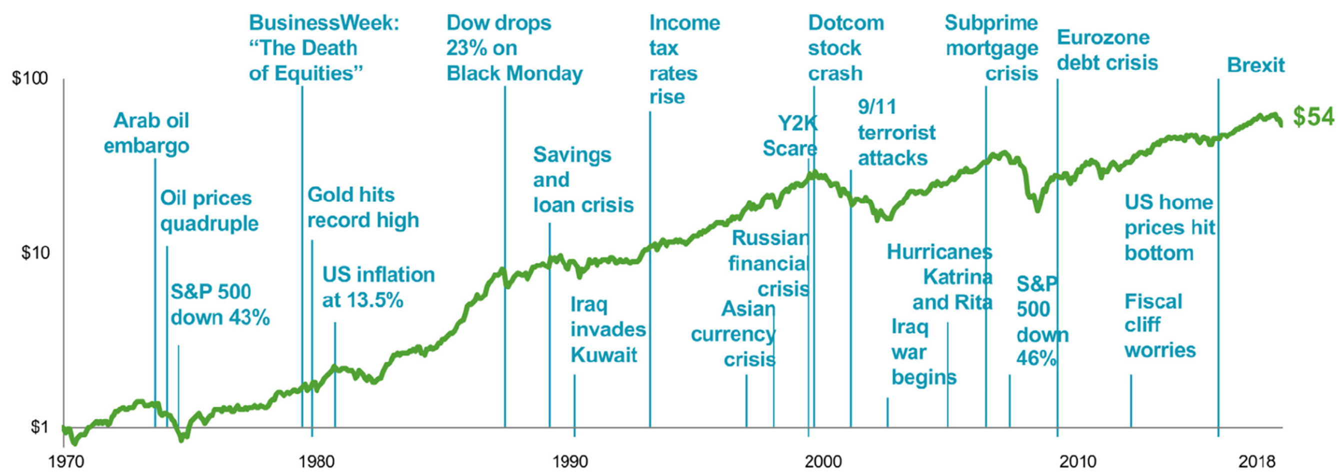
Don't Invest Based on the Headlines

The other reason that causes investors to abandon their investment strategy is fear driven by world events. Like abandoning a strategy because of market declines, this is a bad idea.

As you can see below, despite wars, natural disasters, financial crises, terrorist attacks, trade wars, pandemics, and a host of other negative news a dollar invested in the stock market in 1970 turned into $54 by the end of 2018. Economic growth consistently trumps negative news.

Growth of a dollar: MSCI World Index (net dividends)

1970-2018



Source: Dimensional Fund Advisors. In US dollars. MSCI data MSCI 2019, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

Despite constant headwinds, we make progress. The world is an objectively better place today than it was 50 years ago. For most people there's more freedom. There's more wealth. Infant mortality is down. Literacy rates are up. People live longer. Investors have benefited.

YOU HAVE CONTROL

You can see that recoiling from the financial markets every time there is gloom on the horizon is a poor strategy. Disconcerting events and unpleasant surprises are a constant reality. If you waited to invest until there was smooth sailing, you'd never put your money to work.

The fact that the world is so full of potential danger and uncertainty is actually a good thing. Investors are paid to take risk. If there were no risks, there would be no returns.

You Have Control of Your Own Behavior

How will you deal with the inevitable ups and downs of the markets and the constant stream of negative news? The answer to this question will determine your success as an investor.

The sheer force of 7.8 billion people trying to improve their lives will ultimately push markets higher. It will not be a smooth journey, but if you are patient and disciplined, it can be a rewarding one. You hold the key to your success as an investor.