### Alpesh Patel's Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers



### **Overview**

For me, it's wait and see. Now if I go all the way back to March, I see the Goldman Sachs conviction list. Always useful to see these things. But March is when I substantially went to cash. I did this back in 2022 for the year too.

On both occasions it was because the monthly MACD is falling from overbought below its signal line.

## Goldman Sachs: US Stocks Conviction buy list - March Update

	Company	TICKER	Market Cap (\$ BLN)	Current Price	GS Price Target	% Upside	Note
1 8	BURLINGTON STORES INC	BURL	16	249	334	34%	
2 N	ORWEGIAN CRUISE LINE	NCLH	10	23	31	35%	PT REDUCED
3 P	HILIP MORRIS INTERNATIONAL	PM	241	155	165	6%	PT INCREASED
4 B	BANK OF AMERICA	BAC	351	46	54	17%	
5 B	BRIXMOR PROPERTY GROUP	BRX	9	28	34	21%	PT INCREASED
6 E	VERCORE	EVR	10	242	321	33%	PT INCREASED
7 R	AYMOND JAMES FINANCIAL	RJF	32	155	198	28%	
8 A	ALNYLAM PHARMACEUTICALS	ALNY	32	247	371	50%	
9 B	BAXTER INTERNATIONAL	BAX	18	35	42	20%	ADDED
10 1	NSMED	INSM	15	82	100	22%	PT REDUCED
11 A	AIR LEASE CORP	AL	5	48	64	33%	PT REDUCED
12 D	DEERE & CO.	DE	131	481	583	21%	ADDED
13 N	MERITAGE HOMES CORP	MTH	5	72	100	39%	
14 V	WOODWARD INC	WWD	11	189	212	12%	PT INCREASED
15 V	/IPER ENERGY	VNOM	10	47	72	53%	ADDED
16 B	BELDEN	BDC	4	110	139	26%	
17 1	BM	IBM	234	252	275	9%	
18 P	INTEREST	PINS	25	37	47	27%	PT INCREASED
19 S	NOWFLAKE	SNOW	59	177	225	27%	PT INCREASED
20 5	&P GLOBAL	SPGI	168	534	624	17%	PT INCREASED
21 U	JBER TECHNOLOGIES	UBER	159	76	97	28%	PT INCREASED
5	EMPRA	SRE					REMOVED
5	UNCOR ENERGY	SU					REMOVED
N	VIDIA	NVDA					REMOVED
T	ERADYNE	TER					REMOVED

Source: Goldman Sachs

## Stocks most loved by Hedge Funds

	Company	Ticker	Market Cap (\$ BLN)	N. of funds with stock as TOP 10 Holding	% of market cap owned by hedge funds	YTD Return
1	AMAZON	AMZN	2.405	120	2%	4%
2	META PLATFORMS	META	1.606	80	3%	26%
3	MICROSOFT	MSFT	3.037	75	1%	-3%
4	NVIDIA	NVDA	3.406	49	1%	3%
5	ALPHABET	GOOGL	2.120	46	2%	-2%
6	APPLE	AAPL	3.697	30	1%	-2%
7	UBER	UBER	167	30	4%	32%
8	TAIWAN SEMICONDUCTOR MAN.	TSM	1.058	28	1%	3%
9	HESS CORP	HES	45	25	19%	10%
10	NETFLIX	NFLX	453	24	3%	19%
11	CRH PUBLIC LIMITED COMP.	CRH	74	20	6%	17%
12	MASTERCARD	MA	514	20	2%	7%
13	VISA	V	611	20	2%	12%
14	VISTRA CORP	VST	57	19	9%	22%
15	BERKSHIRE HATHAWAY	BRK.B	1.034	18	1%	5%
16	EU ULLY	LLY	801	18	1%	10%
17	ALIBABA	BABA	290	17	2%	47%
18	SPOTIFY TECHNOLOGY	SPOT	130	17	7%	43%
19	APPLOVIN	APP	173	16	9%	58%
20	FLUTTER ENTERTAINMENT	FLUT	53	16	11%	16%

I know from the above I will at some point enter and at 2x leverage Amazon, Apple, Alphabet, Meta, Microsoft but not yet. Similarly, I will own again nVidia, Taiwan Semi, Eli Lilly. But not yet as I said.

Part of my reason to wait and watch is to get bargains. Part to reduce risk. The image below shows where people sit on this.



#### Goldman Sachs Marquee Source: Goldman Sachs

The latest consensus forecasts from Bloomberg and J.P. Morgan Asset Management highlight an intriguing global growth picture for 2024 and 2025. Notably, China leads the pack, though its growth moderates slightly from over 5% in 2024 to around 5% in 2025. Meanwhile, the US economy sees a cooling-off period, with growth projected to decline from approximately 3% to nearer 2%. The UK and Eurozone economies are both anticipated to experience relatively modest expansions, holding fairly steady at around the 1% mark. Japan remains subdued, yet stable, reinforcing its pattern of low-growth resilience. Investors would be wise to note the shifting momentum away from the US towards Asia—particularly China—as a potential indication of where opportunities and risks may arise over the coming year.



This insightful chart from J.P. Morgan Asset Management demonstrates an important truth: despite frequent intra-year declines, the FTSE All-Share typically delivers positive annual returns. Historically, the UK market experiences an average intra-year drop of around 15%, yet calendar-year returns were positive in 27 out of the last 39 years. This underscores a key investment lesson—short-term market volatility often masks longer-term upward trends. Investors who maintain composure and hold their nerve during temporary dips are

frequently rewarded. In the volatile environment expected ahead, understanding these historical patterns can help investors avoid the common pitfall of panic-selling at precisely the wrong moment.



This comprehensive snapshot from J.P. Morgan Asset Management vividly illustrates the varied performance of global stock markets over the past decade, highlighting the importance of diversification. Notably, the S&P 500 consistently emerges as a top performer, achieving an impressive 10-year annualized return of 15.6% in GBP terms. Conversely, UK markets, represented by the FTSE All-Share, lag behind significantly, underscoring recent underperformance compared to global peers. Emerging markets and Asian equities show significant volatility but offer periods of notable outperformance, making them compelling yet challenging opportunities for investors with a higher risk appetite.

### World stock market returns



Source: LSEG Datastream, MSCI, S&P Global, TOPIX, J.P. Morgan Asset Management. Hypothetical portfolio (for illustrative purposes only and should not be taken as a recommendation); 25% FTSE 100; 25% S&P 500; 15% EM; 15% Euro ex-UK; 10% Asia ex-Japan; 10% TOPIX. All indices are total return. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 31 March 2025.

J.P.Morgan

GTM UK

63

These insightful charts from J.P. Morgan Asset Management clearly illustrate the relationship between valuation levels (forward P/E ratios) and subsequent returns for the S&P 500. Notably, at current valuation levels around a forward P/E of 20x, short-term returns (1-year horizon) are scattered, implying that valuations have limited predictive power in the immediate term. However, the longer-term outlook (10-year horizon) is significantly clearer: higher starting valuations consistently correlate with lower subsequent returns. Given current valuation levels, investors should temper their long-term return expectations, acknowledging that today's pricing points toward more modest future gains. The key takeaway? Valuations matter greatly in the long run—patience and realistic expectations are essential in navigating the current market landscape.





S&P 500 forward P/E ratios and subsequent 1-year returns %, annualised total return\*

60





30

Source: (All charts) IBES, LSEG Datastream, S&P Global, J.P. Morgan Asset Management. "Dots represent monthly data points since 1988, which is earliest ivailable. Forward P/E ratio is price to 12-month forward earnings, calculated using IBES earnings estimates. Past performance is not a reliable indicator of urrent and future results. *Guide to the Markets - UK*. Data as of 31 March 2025. J.P.Morgan

These charts from J.P. Morgan Asset Management highlight two critical insights into S&P 500 earnings and performance. The left panel clearly demonstrates a powerful correlation between forward earnings and index performance over time, emphasizing that rising profits have driven long-term market growth, albeit with occasional volatility. Geographically, while 59% of S&P 500 revenues originate from the US, a significant proportion (32%) comes from international markets, underscoring the importance of global economic health for US companies. Meanwhile, the right panel reveals an intriguing divergence: the "Magnificent Seven" (the largest tech-heavyweights) continue to dominate earnings growth relative to the rest of the market, a trend projected to persist through 2025. Investors should remain mindful that market performance could become increasingly concentrated, relying heavily on these technology giants for sustainable returns.

### **US** earnings

#### GTM UK 52



Source: (Left) FactSet, IBES, LSEG Datastream, S&P Global, J.P. Morgan Asset Management. Earnings data is based on 12-month forward estimates, as published by IBES. (Right) FactSet, S&P Global, J.P. Morgan Asset Management. Earnings growth forecasts are derived from FactSet consensus data. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 31 March 2025. J.P.Morgan

These charts from J.P. Morgan Asset Management vividly illustrate the historical rhythm of bull and bear markets since 1970, using the MSCI World Index. Crucially, bull markets have been far more potent and enduring than bear markets; on average, bull markets last much longer (often spanning multiple years) and deliver significantly higher returns compared to relatively brief—but sharp—bear market downturns. The recent bull market from 2022 onwards highlights this enduring pattern, having delivered a robust 53% return over 30 months thus far. For investors, the lesson here is straightforward: while downturns are inevitable and often emotionally taxing, history strongly favours those who remain invested through volatility, capturing the substantial long-term rewards of market recoveries.



This chart from J.P. Morgan Asset Management provides a critical perspective on global equity valuations, showing the MSCI World's forward P/E ratio as of March 2025 at 18.3x— modestly above its historical average of 16.4x. This elevated valuation indicates investors remain optimistic, though it also suggests that global equities are somewhat expensive relative to historical standards, implying limited room for valuation-driven upside in the near term. Investors should, therefore, adopt a cautious approach, focusing on selective, quality-driven investment opportunities rather than expecting broad-based market gains driven purely by multiple expansions. Valuations are not yet extreme, but prudence dictates preparedness for increased volatility or a potential market correction.





The table highlights that 2025 marks the 8th worst start to a year for the S&P 500 in history, with an 8.2% decline after the first 63 days. Historically, a weak early-year performance doesn't necessarily spell disaster; in fact, in most prior instances, markets have rebounded strongly. For example, 2020 saw a dramatic recovery after initially dropping 23.5%, eventually gaining 52% by year's end. While caution is warranted, history suggests investors could reasonably anticipate a market rebound, reinforcing the importance of maintaining discipline, avoiding panic-driven decisions, and keeping an eye out for selective buying opportunities amidst current volatility.

## S&P 500: 8th worst start to a year in history

		S&P 500		
Rank	Year	Worst YTD Return after 63 days	Rest of the year Return	Higher / Lower
1	2020	-23.5%	52.0%	Higher
2	1938	-19.4%	54.6%	Higher
3	1939	-14.3%	10.7%	Higher
4	2001	-13.2%	0.2%	Higher
5	1932	-13.1%	-2.0%	Lower
6	1935	-10.5%	58.0%	Higher
7	1977	-8.4%	-3.4%	Lower
8	2025	-8.2%	?	?
9	2009	-7.6%	33.6%	Higher
10	1960	-7.6%	5.0%	Higher
11	1933	-7.4%	55.5%	Higher
12	1982	-7.1%	23.3%	Higher
13	1978	-7.0%	8.6%	Higher
14	2008	-6.9%	-34.9%	Lower
15	1942	-6.7%	20.5%	Higher
16	1973	-6.7%	11.5%	Higher
17	1941	-5.8%	-12.8%	Lower
18	1957	-5.4%	-9.4%	Lower
19	1980	-5.4%	32.6%	Higher
20	1953	-5.0%	-1.7%	Lower

This clear and practical chart outlines distinct investment strategies tailored to varying risk appetites, emphasizing that there's no "one size fits all" approach to investing. For aggressive and impatient investors, a lump-sum investment could yield significant returns but at the cost of heightened emotional and financial stress during downturns. Those who are strategic yet risk-loving may prefer accelerated averaging, balancing immediate market participation with partial risk mitigation. Cautious investors might adopt traditional dollarcost averaging, systematically smoothing volatility while sacrificing potential rapid gains. Finally, highly risk-averse individuals might prefer a "wait and see" approach, prioritizing capital protection but risking missing market rebounds and facing inflationary erosion. Ultimately, the key takeaway here is matching strategy carefully to individual temperament, objectives, and risk tolerance—highlighting the wisdom of Warren Buffett's reminder: investing is less about precise prediction and more about positioning oneself to thrive even when predictions inevitably falter.

Investor Profile	Strategy	Advantages	Drawbacks
≸ <sup>4</sup> Risk-Loving, Impatient	All-In, Immediately Lump sum Investment without waltiing.	<ul> <li>Maximum upside if bottom is in</li> <li>Simple and fast deployment</li> </ul>	<ul> <li>Full exposure to further declines</li> <li>High emotional and financial stress</li> </ul>
O Risk-Loving, Strategic	Accelerated Averaging Large tranches over 2-3 months	<ul> <li>Captures rebounds quickly</li> <li>Some downside smoothing</li> </ul>	<ul> <li>Still high volatility risk</li> <li>Requires strict discipline during market swings</li> </ul>
Cautious but Hopeful	Traditional Dollar-Cost Averaging (DCA) Small regular investments over 12+ months	<ul> <li>Smooths risk of entering too early</li> <li>Combines data and timing</li> </ul>	<ul> <li>Can miss early gains</li> <li>Indicators are often unrellable</li> </ul>
i Highly Risk-Averse	Wait and See Hold cash until clear recovery signs (e.g., rate cuts, earnings turnaround)	<ul> <li>Maximum capital protection</li> <li>Avoids catching 'falling knives'</li> </ul>	<ul> <li>× Almost certain to miss the strongest recovery</li> <li>× Inflation crodes cash holdings</li> </ul>

### Investment Strategies for Different Risk Appetites

'It's not about predicting perfectly - it's about surviying well enough to thrive when you are wrong.'

## Vanguard LifeStrategy 100% Equity Fund: Historical Performance Overview

Vanguard's LifeStrategy 100% Equity Fund ("LS100") is a globally diversified, all-equity portfolio. It launched in June 2011 and has delivered solid long-term gains, but its returns have lagged certain benchmarks.

For example, over the 10-year period from mid-2011 to mid-2021, LS100 produced a total return of about **179%**, slightly ahead of the average global equity fund but well behind the **~225%** return of the MSCI World Index.

In other words, while LS100 benefited from the broad global bull market, it **"hardly shot the lights out for the extra risk"** compared to less aggressive allocations. Recent shorterterm results mirror this pattern: LS100's **21.4%** gain in one year (to mid-2021) trailed the **23.3%** sector average and was on par with global indices.

This performance context sets the stage for examining why LS100 may not be the top choice for investors seeking maximum growth.

*Supporting Data:* Vanguard LS100 has **beaten many peer funds** over a decade (earning a Morningstar Silver rating), but a passive global index tracker or U.S.-focused strategy would have delivered higher returns in hindsight. These outcomes stem from LS100's asset allocation decisions and structural choices, which can act as **growth limitations** as detailed below.

### **Key Limitations for Growth-Seeking Investors**

Despite its simplicity and low cost, LS100 has several characteristics that may limit its growth relative to other strategies.

Below are **10 reasons** (and more) why this fund might not be optimal for investors targeting higher returns, focusing on its asset mix, sector exposures, fees, and risk-adjusted performance:

 Heavy UK Home Bias – Lower Growth Potential: LS100 allocates roughly 25% of its equity portfolio to UK stocks, far above the UK's ~4% weight in a neutral global index. This home bias has dragged on performance in the past decade.



The UK market has been a **"laggy" performer** compared to the U.S. and global averages. For instance, London's FTSE indices (dominated by banks, oil, and miners) significantly underperformed U.S. markets in the 2010s. LS100's extra **"dollop" of UK equities** meant it missed some of the stronger growth abroad. In short, overweighting a slow-growing home market has reduced the fund's overall

growth rate. An investor in a true global tracker with minimal UK exposure would have seen higher returns over the same period.

2. Underweight to High-Growth U.S. Stocks: Because of the UK tilt and inclusion of other regions, LS100 holds a smaller share in U.S. equities than the world market

would dictate. The U.S. stock market – especially large-cap tech companies – was the engine of global equity growth over the last decade.



A **global-developed index (MSCI World)**, which has ~60–70% in U.S. stocks, delivered much higher returns partly thanks to U.S. outperformance. LS100, by contrast, had roughly 35–40% in U.S. funds (19% U.S. index fund + ~18% S&P 500 ETF) in its portfolio.

This **underweight in the U.S.** meant LS100 **missed some of the "extra shot of US equity espresso"** that boosted un-biased global funds. In periods when the U.S. market (with its many high-growth firms) leads the world, LS100's relative underexposure there can hold back its total returns.

 Exposure to Emerging Markets Lagged in Recent Years: LS100 includes an allocation to emerging markets (~7–8% via the Vanguard Emerging Markets Stock Index). Diversification into emerging economies can boost long-term growth potential, but over the last decade many emerging markets underperformed developed markets (especially the U.S.).



Notably, **MSCI World (developed markets only) excludes emerging markets and benefited from a larger U.S. weighting**, which helped it outperform LS100. LS100's inclusion of emerging markets stocks – which had relatively weaker returns amid issues in China, Brazil, etc. – **diluted its performance** versus a developed-only or U.S.-focused strategy.

In hindsight, the emerging market exposure did not pay off in growth terms during the 2011–2021 period, contributing to LS100's gap behind a pure world index.

 Broad Diversification into Low-Growth Sectors: By design, LS100 is extremely well diversified across all sectors and regions – it's a "portfolio in a box" covering thousands of stocks.

This provides safety through breadth, but it also means the fund inevitably holds many **slow-growing companies and sectors** that act as a drag on high-growth performance.



For example, the fund holds substantial weight in sectors like financial services, industrials, and energy (as part of its UK and global holdings). It also holds large-cap "value" stocks with higher dividends.

Data on the fund's holdings show a **value tilt**: LS100's portfolio had a lower average P/E (~15.8) and much **lower historical earnings growth (5%** annually) than the global equity category average (~11% growth).

In other words, LS100's diversification included a lot of **mature**, **slow-growth firms** (e.g. oil majors, banks, consumer staples), which kept its earnings growth and capital appreciation lower than a more growth-oriented portfolio.

Investors seeking higher growth might prefer to focus on sectors or companies with faster earnings growth, whereas LS100's all-inclusive approach **"captures the good with the bad,"** limiting the overall growth rate.

 Limited Allocation to Technology and Innovation: Related to the above, LS100 holds the tech sector at roughly market weight (~21% of the fund). While this reflects the global market capitalisation, it meant that during the 2010s tech boom, only about one-fifth of LS100 was in high-flying technology stocks.



By comparison, the S&P 500 (U.S. index) had ~27% in tech, and pure tech indexes (NASDAQ-100, etc.) had much higher exposure. The fund did own the big tech names (Apple, Microsoft, etc. via its index funds), but **not in an overweight manner**.

The consequence: in periods when tech greatly outperforms (as seen in 2015–2021), LS100's **lack of emphasis on "high-growth technology stocks"** contributed to its underperformance versus tech-heavy benchmarks.

An investor concentrating more in booming sectors like technology, biotech, or ecommerce would have realised higher returns than the broad-market approach of LS100. In short, the fund's sector mix is **too balanced** to capitalise on any single highgrowth theme.

 Primarily Large-Cap Focus – Missing Small-Cap Premium: The LifeStrategy 100 fund invests via Vanguard index funds that track large and mid-cap stocks in each region (e.g. FTSE All-Share for UK, FTSE Developed World ex-UK, S&P 500). It has **minimal small-cap exposure**, apart from a tiny slice in the FTSE 250 (UK mid/small-cap). Historically, smaller companies can offer higher growth rates (the "small-cap premium"), albeit with higher volatility. Because LS100 is categorized as a **"Global Large-Cap Blend"** fund, it forgoes a dedicated allocation to global small-cap stocks.



This could be a limitation for growth seekers – for example, many innovative up-andcoming companies start in small-cap indices before growing large.

A self-directed investor could add a small-cap index fund or tilt towards mid/small companies to potentially enhance returns, whereas LS100's fixed allocation does not specifically capture that segment.

Essentially, LS100's broad market approach skews toward established large-cap firms and may **miss out on the higher growth often found among smaller-cap equities**.

 Static Asset Allocation (No Tactical Adjustments): One of LS100's defining features is its fixed allocation – roughly 100% equities with set regional weights (including ~25% UK). The fund is **passive and rules-based**, rebalancing periodically to maintain target weights. While this discipline enforces buy-low, sell-high rebalancing, it also means **no tactical shifts** to capitalise on changing market conditions.



By design, the fund **"does not adjust asset weightings depending on prevailing market conditions"**. In contrast, an active investor or adaptable strategy could overweight markets or sectors expected to outperform and underweight those expected to lag.

For example, when one region (like the U.S.) is clearly leading, LS100 will still trim it to add to others (like UK or emerging) to stick to the preset mix – potentially cutting winners too early. Similarly, the fund cannot raise cash or rotate into defensive assets in advance of a downturn; it rides the market fully down and up.

This lack of flexibility can hamper growth in two ways:

 (a) the fund may continue plowing money into underperforming areas due to rebalancing (e.g. buying more of a slumping UK market) rather than shifting to faster-growing opportunities; an

- (b) it cannot sidestep market crashes (which, if one could even partially do, would improve long-run compounded returns). In summary, LS100's one-size-fits-all static allocation might not be optimal if you have insight or desire to tilt toward where the growth is – it won't tactically "chase" higher growth areas, even when doing so might be advantageous.
- 8. Risk-Adjusted Returns Not Superior: Investors seeking high growth should also consider risk-adjusted performance are you getting enough extra return for the extra volatility?

LS100 carries 100% equity risk (significant volatility and drawdowns), but its reward for that risk has not been dramatically higher than some less risky mixes. Over the past decade, a LifeStrategy 60%. LS100 did deliver higher absolute returns, but not by a wide margin relative to the jump in volatility.



As one analysis noted, the all-equity fund **"has done a solid job, but it hardly shot the lights out for the extra risk"** when compared to something like LifeStrategy 60. Its **Sharpe ratio** (a measure of return per unit of risk) was likely not much better than a balanced portfolio, especially since bond yields were decent and smoothed volatility in that period.

In practical terms, during market downturns LS100 can drop over 30-40% (as global stocks did in 2008 and March 2020), erasing years of growth temporarily. Unless an investor stays the course, that volatility can hurt long-term results (selling low locks in losses).

Other strategies – e.g. slightly tempered equity exposure or factor-tilted portfolios – might deliver comparable long-term growth with a smoother ride. / Thus, for the incremental risk taken, LS100's **risk-adjusted return** profile hasn't been extraordinary. Those seeking *efficient* high growth might improve the risk/reward balance by diversifying or timing allocations more wisely than the fund's rigid approach.

 Costs and Fees – Slight Drag on Total Returns: Vanguard is known for low fees, and indeed LS100's ongoing charge (OCF) of ~0.22% is inexpensive in absolute terms.

However, investors could achieve a similar all-equity global exposure at an even lower cost on their own. The LifeStrategy fund is a **fund-of-funds**, meaning it holds other Vanguard index funds. There is a small extra layer of cost for this convenience – **"a small OCF premium for the convenience of buying in bulk"**.



In fact, holding the underlying index funds or ETFs separately could trim the fees slightly (for example, a U.S. S&P 500 ETF charges as low as 0.05–0.07%, and global ETFs can be ~0.15% – a blend that might come in under 0.20%).

As one comparison noted, LS100 at 0.22% vs a simple S&P 500 ETF at 0.07% highlights the higher fee for the diversified approach. Over long periods, every fraction of a percent in fees compounds and can shave off total returns. While the cost difference isn't huge, **fees do eat into growth**, and extremely costconscious, growth-focused investors may prefer to use the cheapest possible index trackers or commission-free platforms.

Additionally, because LS100 is a single fund, if it's held on a platform that charges percentage-based account fees, there's no way to avoid that by using ETFs (some brokers have flat fees or no custody fee for ETFs).

In summary, LS100's fee is low but **not the lowest possible**, and any avoidable cost can be viewed as a slight performance headwind for those trying to maximize returns.

10. No Chance of Outperforming the Market (By Design): Perhaps the most fundamental limitation is that LS100 is *not trying* to beat the market – it is the market, in many ways. The fund's goal is to "achieve a global average weighted return" cheaply and reliably.

That's great for a hands-off approach, but for an investor aiming to **outpace** the market (higher growth than average), LS100 will never be the vehicle to do that. It does not employ any active stock selection or specialised strategy that could generate alpha beyond market returns.



In fact, Vanguard explicitly avoids such bets; even the home bias tilt is based on investor preference, not a forecast for better returns. As a result, LS100 will underperform any segment of the market that outperforms the average.

If technology stocks or a particular country skyrocket, LS100 captures only a proportionate slice of that gain. It will also, by construction, hold parts of the market that might stagnate.

In hindsight you can "always find an investment that would have been amazing" – whether Bitcoin, Nasdaq, or Tesla– but LS100 will **never** be that concentrated winner.

It's the classic trade-off: broad diversification vs. concentrated growth. Thus, investors with the goal of *maximizing* growth may find LS100 too constrained; to beat the market, one must deviate from the market portfolio.

LS100's mandate is to **match market performance (with a slight UK twist)**, so it inherently forfeits the possibility of excess returns (aside from small variations) in exchange for simplicity and consistency.

In summary, the LS100 fund provides global equity exposure with low effort, but its built-in asset allocation and approach lead to a **"middle-of-the-pack" growth profile**. The above factors – from a large home bias to lack of tactical flexibility – help explain why it hasn't been the top performer for growth, especially when compared to more focused or dynamic strategies.

### How Self-Directed Investing Can Offer Higher Growth

For investors willing to take a hands-on approach, **self-directed investing** can provide opportunities to outperform a one-size-fits-all fund like LS100. By constructing your own portfolio (or selecting specialised funds), you can address many of the limitations outlined above:

 Custom Asset Allocation: A self-directed investor can remove the UK home bias and allocate globally according to market weights or personal market outlook. For example, one could invest in a global all-cap index fund with only ~5% UK exposure, instead of 25%.

This would have boosted past returns and may continue to do so if the UK remains an under-performer. You also have the freedom to **overweight regions** you expect to grow faster. If you believe the U.S. or emerging Asia will lead, you can tilt more heavily there (unlike LS100, which is locked into fixed proportions).  Sector and Thematic Tilts: Self-directed portfolios allow overweighting high-growth sectors that LS100 only holds at market weight. For instance, an investor could allocate extra funds to technology or healthcare ETFs, or buy a NASDAQ-100 index fund, capturing more of the growth from innovative companies.

Indeed, a simple tilt toward the **S&P 500 (U.S.) over the last 5+ years delivered higher returns** than LS100, largely due to the tech-heavy nature of the S&P 500. The investor can also add funds focusing on specific themes (like clean energy, biotech, or emerging tech), which, if successful, could drive portfolio returns above the broad market average.

Include Small Caps and Growth Stocks: To aim for higher long-term growth, one might add a global small-cap index fund or a quality growth fund to the mix.
 Historically, smaller companies and certain "growth" factor stocks can outperform large-cap averages over extended periods.

Since LS100 is light on small-caps, a DIY approach can intentionally capture that **small-cap premium** by investing in, say, a Vanguard Global Small-Cap index fund or similar. Likewise, one could choose funds that emphasize companies with high earnings growth or other favourable metrics. These tilts come with more volatility but potentially **better returns to reward the risk** – something a growth-seeking investor may accept.

 Dynamic/Tactical Allocation: Unlike LS100's static policy, a self-directed investor can practice tactical asset allocation (if they have the skill or conviction). This might mean reducing exposure to overheated markets or sectors and increasing exposure to undervalued or fast-rising ones.

For example, an investor could have recognised the strength of the U.S. market and shifted more into U.S. equities in the mid-2010s, thereby beating the balanced global approach. Conversely, they could trim positions when valuations seem extreme.

While timing the market is challenging, having the flexibility to adjust can protect and enhance growth – active managers did exactly this by underweighting expensive long-duration bonds, which helped them when bonds fell. Similarly, a nimble equity investor might avoid regions with poor outlook (e.g. trimming UK during Brexit uncertainties) in favour of those with stronger momentum.

Lower Costs with ETFs and Brokers: As noted, you can replicate LS100's exposure with separate low-cost index funds or ETFs, often at a slightly lower total expense ratio. Many core ETFs (U.S., global developed, emerging markets, etc.) have OCFs in the 0.05%–0.20% range, which combined can come out below 0.22%.

Additionally, some investment platforms offer **free trading or zero commission on ETFs**, meaning you won't incur high transaction costs to rebalance periodically. Vanguard's own platform, for instance, has a low account fee cap and does not charge for fund switches.

By self-investing, you ensure that every basis point saved in fees can contribute to your returns – an edge that compounds over time. Essentially, **you can get the same diversification without paying for the "fund-of-funds" wrapper**, improving net performance slightly.

 Potential for Stock Selection Alpha: Truly growth-driven investors might go beyond index funds and pick individual stocks or concentrated positions that they believe will outperform. LS100 holds thousands of stocks, most of which will never double or triple in value quickly.

A self-directed approach could focus on a few dozen high-conviction stocks (for example, leading tech innovators or emerging market champions). If even a few of those picks turn into big winners, the portfolio's growth could surpass an index fund.

Of course, stock picking carries higher risk and requires research, but it's a path to potentially **beat the market** – something LS100 doesn't attempt. Even a barbell

strategy of a core index fund plus a satellite of growth stocks can tilt the return higher.

As Vanguard's own product manager admitted, **"some of the best fund managers can't consistently" predict the next big out-performer**, so this route is only for those confident in their analysis. However, the option is there to try for alpha.

 Inclusion of Alternative Growth Assets: While LS100 sticks strictly to equities, a selfdirected investor could diversify into other growth-oriented asset classes that might boost returns. Examples include real estate investment trusts (REITs), commodities or gold (which can shine in certain cycles), or even crypto and private equity for the very risk-tolerant.

These are unconventional and come with their own risks, but they've been stellar performers in certain periods (e.g. Bitcoin in the 2010s, or property in various markets). LS100 doesn't touch these areas.

Adding a small allocation to alternative assets when conditions favor them could improve the growth trajectory of a portfolio beyond what a 100% public equity fund delivers. (Naturally, caution and due diligence are critical with such assets.)

In essence, self-directed investing offers **greater control and customisation**. You can correct the aspects of LS100 that you view as drawbacks – whether it's eliminating the UK bias, emphasising specific sectors, or adjusting allocations as the world changes.

By doing so, you increase the chance (though not the guarantee) of achieving higher growth than the off-the-shelf LifeStrategy fund. Indeed, looking back, a simple self-built portfolio of **90% global equities (with no home bias) + 10% emerging tech stocks** would have handsomely outpaced LS100.

The trade-off, of course, is the effort and risk of making these choices yourself. But for those targeting maximum growth, that effort can be worthwhile.

### Conclusion

The Vanguard LifeStrategy 100% Equity Fund has proven to be a **robust**, **low-cost vehicle for broad equity market exposure**, but its very design – broad diversification with a home bias and static allocation – means it **delivers middle-of-the-road growth**. It achieves the market's average return (after a small fee), which by definition cannot lead the pack when certain segments soar.

We identified at least ten reasons why LS100 may not be ideal for aggressive growth seekers: from its **25% UK allocation dampening returns**, to its underweight in the U.S./tech boom, inclusion of slower-growth sectors, lack of small-cap tilt, and inability to adapt tactically.

Its **risk-adjusted performance** has been decent but not remarkable, given 100% equity volatility. In contrast, a self-directed strategy can exploit these shortcomings – by reallocating to high-growth regions and sectors, lowering fees, and even attempting to pick winners, an investor might achieve better performance than the all-in-one fund.

Ultimately, whether LS100 is the "best" choice depends on one's goals. For many investors, its simplicity and diversification at low cost are a winning formula (avoiding big mistakes is as important as chasing big returns). However, for those *solely focused on higher growth* and willing to take extra risk or effort, **more tailored approaches appear capable of outperforming LS100** over the long run.

The historical data bears this out: a globally diversified but *home-bias-free* portfolio would have topped LifeStrategy 100's returns by a sizable margin, and a U.S.-heavy or tech-heavy portfolio even more so.

Going forward, investors who desire maximum growth should consider taking the driver's seat – using LS100 as a benchmark of global equity performance, but not necessarily the vehicle of choice.

With informed asset allocation decisions, sector emphasis, and cost discipline, self-directed investors can position their portfolios for better growth than the **all-in-one**, **average** 

approach embodied by LifeStrategy 100% Equity.

**RISK WARNING:** All investing is risky. Returns at not guaranteed. Past performance and case studies are no guarantee of future results.

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Alpesh Patel OBE

# What Does 20 Percent Volatility in a Stock or Fund Mean? And Why Do So Many People Panic?

**20% annualised volatility** means the stock's **annual returns** tend to fluctuate within a range of ±20% (one standard deviation) from the average in a typical year. In other words, it's a statistical measure of how "wide" the dispersion of returns is.

Below, we break down what 20% volatility implies mathematically, provide a real-world analogy, and examine historical examples, extreme cases, frequency of large moves, and what this means for investors in terms of risk management.

### **1.** Mathematical Explanation: From Annual to Daily and Monthly Volatility

Volatility corresponds to the **width of the distribution** of returns. A 20% annual volatility implies that most yearly returns will fall within a band around the average (mean) return, as illustrated by the bell curve above.

In a normal distribution, about 68% of outcomes lie within one standard deviation  $(\pm 1\sigma)$  of the mean, ~95% lie within  $\pm 2\sigma$ , and ~99.7% within  $\pm 3\sigma$ . Volatility is the standard deviation of returns – it doesn't tell us the direction of returns, just the degree of variation.



Annual Volatility (20%) – If a stock's price is \$100, one standard deviation for the year is ±\$20. This means about a 68% chance the ending price after one year will be between \$80 and \$120 (within ±20%).

There's roughly a 95% probability it ends between \$60 and \$140 (±40%, two standard deviations). In statistical terms, a 20% annualized  $\sigma$  implies most annual returns cluster in a range of about –20% to +20% around the mean in normal conditions.

Extreme outliers (three standard deviations or ~60% moves) are statistically rare (~0.3% probability if returns were perfectly normal). However, real markets have "fat tails," meaning extreme moves happen slightly more often than a perfect normal distribution would predict.

Monthly Volatility – To find volatility over shorter periods, we scale by the square root of time. For one month, 20% annual volatility translates to about 5.77% per month (20% / √12 ≈ 5.77%).

Using the \$100 stock example, a one-standard-deviation move in a month is about  $\pm$ 5.77, so about 68% of the time monthly returns would fall in the range -5.77% to +5.77%.

A two-standard-deviation month (~ $\pm$ 11.5%) is rarer (~5% probability). In practical terms, a **single month** might typically see the stock move up or down by only a few percent, but a very bad month could see on the order of a 10% drop (2 $\sigma$  event), given 20% annual volatility.

Daily Volatility – There are roughly 252 trading days in a year, so daily volatility would be ~20%/√252 ≈ 1.25% per day. This implies on most trading days the stock might only move about ±1% or so.

A one-day move of  $\pm 2.5\%$  would be about a  $2\sigma$  daily event (roughly 5% probability in a normal distribution, meaning about 1 out of 20 trading days) – so we'd expect a few 2%–3% daily moves in a typical year.

A **5% one-day move** is ~4 standard deviations relative to a 1.25% daily sigma; under a normal bell curve that's extremely unlikely (<0.01% chance on a given day), but as we'll see, real markets occasionally experience such jumps during turmoil.

Expected Returns vs. Volatility – It's important to note that volatility is not the same as expected return. A stock could have an expected annual return (mean) of, say, +8%, but with 20% volatility the *actual* outcome in any given year will likely deviate significantly from +8%.

For instance, one year might be +30%, another year –15%, etc., and these variations around the average are captured by the ~20% standard deviation. If we assume an **expected return ~0% for simplicity**, a 20% volatility means about a 2.3% probability of being *worse than* – 40% in a year (since –40% is 2 $\sigma$  below the mean), and similarly a ~2.3% chance of more than +40%.

In reality, stock returns are not perfectly normal – extreme moves occur a bit more frequently than the theoretical odds.

**Bottom line:** 20% annual volatility implies a *moderate level of fluctuation*. In an "average" year, you might expect the stock's return to fall somewhere within ±20% around its mean more often than not.

On a **daily basis**,  $\pm 1\%$  moves are routine, and on a **monthly basis**,  $\pm 5\%$  swings are common. Larger deviations (e.g. a +20% year or -20% year) do happen but are progressively less frequent the more extreme they get.

### 2. Real-World Analogy: Intuiting Volatility

To build intuition, consider an analogy: **Volatility as a "Bumpy Ride":** Think of the stock's price as a car on a road trip. The **average speed** of the car corresponds to the stock's expected return, and **volatility** is like the variability in the car's speed due to road conditions.



*Low volatility* is a smooth highway – the car stays near 60 mph consistently with only small speed changes. *High volatility* is a rough, twisty road – sometimes you're zooming at 80 mph, other times slamming the brakes to 40 mph.

**20% volatility** would be a moderately bumpy journey: most of the time you travel at roughly your usual speed (within about ±20% of it), but you'll frequently slow down or speed up noticeably.

There might be occasional **"white-knuckle" moments** (extreme volatility) where conditions force a very sharp slowdown (analogous to a market crash or big drop), or an unexpected surge (a big rally).

Another analogy: **A dog on a leash.** Imagine the stock's **long-term trend** is the path of the dog's owner, and volatility is how far the dog wanders from the owner while walking.

A well-behaved, calm dog (low volatility) stays close to the owner's side, straying only a little. A hyperactive dog with a long leash (high volatility) darts around in all directions – sometimes far ahead, sometimes lagging behind or veering sideways.

If volatility is 20%, the "dog" (price) is on a moderately long leash: it usually stays within a certain distance of the trend, but it has enough leeway to occasionally run off quite far before coming back.

**Implications:** In both analogies, the *destination* (or the owner's general direction) might be unchanged, but **higher volatility means a less predictable, more erratic journey** to get there. Investors need to be prepared for those twists and turns.

These analogies underscore that volatility = **variability**. A stock with 20% volatility isn't steadily rising 20% each year; rather, it's bouncing around – sometimes up, sometimes down – with a typical magnitude of 20% *around its average trajectory*. Understanding this helps investors mentally prepare for the level of **"choppiness"** in the price.

### 3. Historical Examples of 20% Volatility

**Market Indices:** A 20% annualised volatility is in the ballpark of long-term stock market volatility. For example, the S&P 500's historical volatility has averaged around 15% annually in recent decades, often lower in calm periods and higher in turbulent times.

Periodically it does approach or exceed 20%. The FTSE 100 (UK stock index) shows a similar pattern – roughly mid-teens volatility on average. From 2000–2024, the FTSE 100's standard deviation of annual returns was about **14.7%**, but in more volatile episodes it climbed closer to the 20% range. So 20% volatility is a **realistic, moderate risk level** for a broad equity index.



 S&P 500 – "Normal" vs. Volatile Years: In typical years, the S&P might return, say, +10% with a volatility around the mid-teens. But in volatile years, realised volatility can shoot well above 20%. For instance, in 2008, the S&P 500 plunged 38% for the year, one of its worst annual performances on record.

This was far outside the ±20% band – essentially a ~2-sigma downside event under a 20% volatility assumption. Not surprisingly, actual volatility spiked dramatically during the 2008
financial crisis: the VIX (a market volatility index) hit levels around **80** (implying **~80%** annualised volatility expectations at the peak of panic).

By contrast, **2017** was an exceptionally calm year with S&P volatility around 10% or less (the index rose ~19% that year with very few big swings). These examples show that realised volatility itself varies year to year: 20% is an average ballpark, but actual markets have both quieter and more explosive periods.

FTSE 100 – Crashes and Calm Periods: The UK's FTSE 100 likewise has seen years of extreme volatility. A famous example is *Black Monday 1987*: on October 19, 1987, the FTSE 100 plummeted –10.8% in one day, followed by another –12.2% drop the next day. Over those two days, the index lost about 22% of its value – an extraordinarily rare and volatile swing (far beyond what 20% annual volatility would suggest for a *single week*!).

Yet, despite that crash, the FTSE recovered in subsequent years. More recently, during the **COVID-19 panic in March 2020**, the FTSE 100 (along with other indices) saw volatility surge: the index fell roughly 25–30% in a matter of weeks and had many days with +/-5% moves.

Such episodes greatly exceed "normal" volatility in the short term, but they illustrate the spikes that can occur. Outside of crashes, the FTSE often experiences annual volatility in the teens.

For example, between late 2021 and early 2022, the 60-day trailing volatility of the FTSE 100 fell into single digits as markets were calm, whereas in early 2020 it was extremely high.

**Key point:** an index like FTSE 100 usually operates in a volatility regime near our 20% mark, but can swing from very low to very high volatility depending on market conditions.

Individual Stocks: Many large-cap individual stocks have long-run volatilities in the 15–25% range, comparable to ~20%. For instance, as of early 2025, Apple
 Inc. (AAPL), one of the world's largest companies, has a realised volatility around

**19.6%**. This means Apple's stock typically fluctuated ~20% annualised – a level consistent with a mature but still somewhat volatile equity.

Another example: **Coca-Cola** (KO), a very stable consumer staples stock, has implied volatility around 15–17% most of the time, a bit lower than 20%, whereas a more cyclical stock might be higher.

It's worth noting that **20% is moderate in the stock world** – some high-growth or speculative stocks regularly exhibit volatility well above 30–40% (e.g., a stock like Tesla often had volatility >50% in certain years), while very defensive stocks or utilities might be below 15%.

Notable High-Volatility Periods: Even stocks or indices that average ~20% vol can experience *transient spikes*. Besides 2008 (global crisis) and early 2020 (pandemic crash), other historical moments of extreme volatility include the Dot-Com Bust (2000–2002) – the Nasdaq index (tech-heavy) saw volatility skyrocket and the Nasdaq Composite fell ~78% peak-to-trough while the S&P 500 dropped ~50% over that bear market.

The **Great Depression era (1929–1932)** was even more volatile: the Dow Jones had stretches of volatility well over 50% and saw annual declines over 40% multiple times. These are outliers in history, but they show the upper extremes of stock volatility.

By contrast, there have also been periods of eerie calm (e.g., 2017 as mentioned, or mid-1960s) where volatility is exceptionally low. A 20% volatility is somewhere in between – neither a tranquil low-volatility period nor a panic, but rather an *ordinary level of market choppiness* consistent with many historical norms.

In summary, **20% volatility** is close to what broad equity markets often experience. It's high enough to include noticeable swings (market corrections and rallies), but not an extreme outlier level. Many well-known indices and stocks have operated around this volatility level, though **specific years can be much higher or lower**.

#### 4. Worst-Case Scenarios: Probability of Extreme Drops

Investors are often especially concerned with **extreme negative returns** – for example, how likely is a **40% drop** in a year if volatility is ~20%? Statistically, a –40% one-year return is **2 standard deviations below** the mean (if we assume the mean ~0 for simplicity).

Under a normal distribution, a  $\geq 2\sigma$  downside event has a probability of about **2.3%** (approximately once every 40 years). In other words, *in theory* a 20% volatility implies that a year as bad as -40% is quite rare. However, markets are not perfectly normal and **history suggests extreme drops occur a bit more frequently** than the idealised odds:



Historical Frequency of ~40% Declines: Looking at the S&P 500's history, one-year drops of ~40% have indeed been *infrequent but not unheard of*. The 2008 financial crisis saw the S&P 500 down about -38.5% for the year.

During the **Great Depression**, 1931 recorded an annual drop of roughly –44%, and 1937 saw around –38%. In **1973–74**, the market fell in two consecutive years for a combined drop of nearly 50%, with around –30% in 1974 alone.

In the **2000–2002** bear market, the S&P 500 declined roughly 50% from peak to trough, though that was spread over three years (the worst single calendar year was 2002 at –22%).

So, a **40%+ decline in one calendar year** is very rare (the only clear case in the last 50+ years was 2008, and before that you go back to the 1930s). *But*, if we broaden to peak-to-trough drawdowns, we have seen multiple ~40–50% collapses (1973–74, 2000–02, 2007–09).

**Conclusion:** Based on history, a ~30–40% bear market tends to happen on the order of once every decade or two (and deeper 50% crashes perhaps once in a generation), which is roughly in line with the probability estimates of a 20% vol model (a 30% crash is a ~1.5 $\sigma$ –2 $\sigma$  event; a 50% crash is ~2.5 $\sigma$ ).

• **Distribution "Fat Tails":** It's important to note that actual stock return distributions have *fat tails*, meaning the odds of extreme moves are higher than the pure normal curve predicts.

For example, a **-20% single-day** crash like Black Monday 1987 is essentially a  $10+\sigma$  event under a 1.25% daily volatility assumption – statistically "impossible" in a normal distribution – yet it occurred.

Similarly, the 2008 crisis had multiple  $3\sigma$ - $5\sigma$  daily moves in a short span. This indicates real worst-case scenarios can be more frequent than a naive model might suggest.

As volatility rises in a crisis, **the probability of extreme moves also rises** because volatility itself is not static – it tends to spike during market stress (the 20% assumption might blow out to 40% or more in the midst of a crash, making large drops more probable in those moments).

• Scenario Analysis: If we assume 20% vol and a modest positive expected return (say 5–10%), the *likeliest* outcomes cluster around that (e.g. maybe a +10% year ±20%).

But **risk management** requires contemplating the worst cases: a  $3\sigma$  negative year (-60% or worse) would be catastrophic but exceedingly unlikely (<0.3% chance under normal assumptions; historically, the stock market has never fallen 60% in one calendar year, though the total drawdown in 1929–32 was over 80% cumulatively).

A 2σ negative year (–40% or a bit more) has a few historical precedents as noted. Hence investors often plan for something like a **"1-in-20 or 1-in-50 year"** bad outcome where you could lose on the order of one-third to half your equity value – not expected in a normal year, but possible over a long horizon.

Stress Periods: It can also be useful to look at intra-year worst cases. For example, in early 2020 the S&P 500 dropped 34% in just 33 days during the COVID crash – an extremely fast bear market. If one was only looking at annual volatility, 2020's full-year return (S&P ended 2020 roughly +16%) belies the extreme swing within the year.

The lesson is that **worst-case scenarios often unfold over short, intense bursts** of volatility. A 20% annual volatility environment can suddenly morph into a temporary 50%+ volatility spike during a crisis, enabling those tail events.

In summary, with 20% vol one might *expect* routine ups and downs, but **plan** for the occasional brutal downturn. Based on probability, a **-40% yearly drop** might be expected roughly once in decades under normal conditions, and that aligns with historical observation (e.g. 1974 and 2008 were on that order in roughly 30-year span).

Truly **worst-case multi-decade events** (like Great Depression-level losses) exceed the 20% volatility model entirely – those are outliers where volatility spiked far beyond 20% during the event. The takeaway: **extreme negative scenarios are rare, but not impossible**, and volatility gives a framework to gauge their odds.

#### 5. Frequency of Large Moves

Investors often ask, "How often will I see really big moves with 20% volatility?" We can use both statistical reasoning and historical data to answer for different magnitudes (say 5%, 10%, 20% changes) over different time frames:



Daily Moves: With daily volatility ~1.25%, a 1% day is not unusual at all (within 1σ). A
 2–3% daily change is around 2σ, which under normal assumptions might occur a few times a year.

Indeed, historically the S&P 500 has frequently had a handful of days each year where it rises or falls in the  $\sim$ 2–3% range (often around earnings news or macro events). **5%+ daily swings** are much rarer.

Under a static 1.25% daily sigma, a 5% move is ~4 $\sigma$  (which would be expected only once in tens of thousands of days). Yet in reality, 5% days do happen during **turmoil**: in October 2008, for example, the S&P moved ±5% or more in a single day on multiple occasions, and in the **fourth quarter of 2008 there were 29 trading days where the index moved 3% or more up or down** in a day.

In March 2020, the S&P had several days beyond  $\pm 5\%$ , including a nearly -12% drop on March 16, 2020 (an extreme outlier corresponding to  $\sim 10\sigma$  if volatility were still 1.25%—of course actual volatility had spiked far above normal by then).

**Bottom line:** In a typical year, you might *not* see a 5% daily move at all, or maybe only once. But in a **high-volatility year**, expect numerous large daily swings. **10% in one day** is extraordinarily rare (only 1987's crash saw –22% in a day for the Dow, and +11% in a day was the S&P's record gain on Oct 13, 2008). So don't expect 10% days in a 20% vol regime except in the most extreme crises.

Monthly Moves: With ~5.8% monthly volatility, a 5% move in a month is around a 0.86σ event – quite routine. In fact, it would be unusual *not* to have a single month in a year where the market is up or down 5% or more.

A **10% move in a month** is ~1.7 $\sigma$  (roughly a 9–10% probability in any given month if normal). Historically, U.S. stocks have seen 10%+ monthly changes fairly often, especially around market inflection points.

For example, **October 2008** saw the S&P 500 fall about –17% in one month, and then **April 2020** saw a +12% monthly gain as the market rebounded. It's common to get a double-digit

percentage decline or rally within a calendar year (during panic or recovery phases). **20% in a single month** would be around  $3.5\sigma$  (very rare normally).

We have seen a few ~20% months in extreme cases (e.g., the Dow was down 23% in September 1931; up 21% in April 1933; more recently, nothing quite 20% in a month for the S&P, though March 2020 was ~-12%, and April 2020 +12%).

So, under 20% annual volatility, expect 5% months regularly, 10% months occasionally (perhaps 1–2 per year, often clustered in volatile periods), and 20% months only in extraordinary situations.

Annual Moves: With 20% as the one-year σ, about 1 in 3 years should see a double-digit percentage move up or down beyond 20% (since >1σ happens ~32% of the time in either tail). In fact, the historical record shows that *exactly hitting the long-term average is rare* – returns tend to be either well above or well below average in a given year.

From 1998 to 2022, for example, the S&P 500's yearly returns ranged from +32% at the high end to -37% at the low end, and only a couple of years had single-digit gains or losses.

So **20%+ gains or losses in a year** are not unusual. On average (since 1950), the S&P has a **10%+ correction about every 2 years, and a 20%+ bear market roughly every 7 years**. This means investors should expect **significant swings** fairly regularly.

A **+20% or more up-year** happens quite frequently (bull markets often produce years +20% or +30%).

A **-20% or worse down-year** (bear market year) historically has occurred roughly ~15% of years (e.g., 9 down years >20% for the S&P in the last ~60–70 years). In a 20% volatility regime, a -20% year is a 1 $\sigma$  event (about 16% chance), which aligns well with history.

To put it plainly: Investors should be mentally prepared for ~10% corrections at least every couple of years, 20% bear markets every decade or so, and occasional larger crashes. Day-to-day, 1–2% moves are part of the normal noise, and a 4–5% daily jump, while rare, can occur in extreme moments.

This level of volatility also implies that **intra-year volatility** is the norm – even in years that end up with modest returns, it's common to experience a significant mid-year drawdown. (In fact, the average peak-to-trough intra-year drawdown for the S&P since 1950 is around 13%, meaning most years had at least one 10% dip at some point during the year.)

The 20% volatility figure provides a statistical framework: roughly two years out of three, the market won't deviate more than about 20% from its trend, but that third year (or during crises) you will see those larger swings.

#### 6. Risk Management Implications

A 20% volatility level has important implications for **portfolio construction and risk management**. Here are key considerations:



• Expect Drawdowns: With this volatility, an investor should expect that at some point their portfolio (if fully in stocks) could be down on the order of 20% from a peak, and in worse scenarios 30–40%.

**Risk management** means *not being surprised* by this and ensuring such a drop is something you can financially and psychologically withstand. If a 20% decline in your holdings would derail your goals or cause panic selling, you may need to reduce exposure (e.g. include bonds or other lower-volatility assets to dampen overall portfolio volatility).

Diversification: Building a portfolio with multiple asset classes can reduce overall volatility. Stocks with 20% vol can be paired with bonds (which are typically less volatile) or other assets that don't move in perfect lockstep.

Diversification spreads risk so that a 20% volatility in one asset doesn't translate to 20% volatility for the whole portfolio if other assets behave differently. The principle is that unless all assets are perfectly correlated, mixing them will *lower* the combined volatility.

For example, a 60/40 stock-bond portfolio historically has had volatility significantly lower than pure equities (perhaps in the ~10–12% range, depending on bond volatility), which smooths out the ride.

Even diversifying across many stocks (holding an index fund rather than a few individual stocks) helps because the idiosyncratic ups and downs average out. In short, 20% vol for one stock can be managed by not putting all your eggs in that one basket.

 Allocation and Time Horizon: Investors should align their asset allocation with their risk tolerance given a 20% vol environment. Younger investors with long horizons might accept 20% volatility (or even higher) in exchange for higher expected returns, knowing they have time to recover from downturns.

Older investors near retirement often dial down volatility exposure (shifting to more bonds/cash) because a 20%+ drop at the wrong time can be harmful when withdrawals are needed.

**Time horizon matters**: over long periods, the impact of volatility is softened by eventual recovery (historically, markets have always recovered and reached new highs after bear markets, given enough time).

*"Time in the market, not timing the market"* is a common adage – enduring volatility is the price for growth, and a long-term investor is typically rewarded for riding out the storms.

Thus, risk management doesn't mean avoiding volatility (which is impossible in equities), but structuring your portfolio so that short-term volatility doesn't force you into bad decisions.

• Emotional Discipline: With a 20% volatile asset, one must be prepared for the emotional rollercoaster. Sudden drops can trigger fear. A sound risk management plan (such as setting appropriate stop-loss orders, or simply having a rules-based rebalancing approach) can prevent knee-jerk reactions.

For example, one strategy is to **rebalance** periodically: if stocks drop significantly (increasing the bond percentage of a balanced portfolio), rebalancing would have you buy stocks at lower prices, and vice versa.

This enforces buying low and selling high, taking advantage of volatility rather than falling victim to it. Volatility can also present **opportunities** – for instance, options strategies (like selling options) often become more lucrative when volatility is high, and long-term investors can add to positions at discounted prices during a volatile sell-off. But these approaches require discipline and understanding of one's risk tolerance.

 Risk Measures and Position Sizing: In practical portfolio management, one might use measures like Value at Risk (VaR) or stress tests to see what a 20% volatility implies for potential losses. For instance, a one-week 99% VaR might indicate how much one could lose in a very bad week.

Such analysis might reveal, say, that in a 20% vol regime there's a 1% chance of losing 6%+ in a week, etc. This can guide position sizing (how big of a position to take in a volatile stock) so that even a worst-case swing doesn't exceed what the portfolio (or the investor) can handle. If an investor holds a stock with 20% vol, they might size it smaller compared to a stock with 10% vol to equalise risk.

• Stay Invested vs. Market Timing: Since volatility is inevitable, a key risk management insight is that trying to time the market to avoid volatility can backfire. Often, the best (most positive) days in the market occur in close proximity to the worst days.

Missing the major rebound days (which often happen during volatile times) can hurt longterm returns. Therefore, many advisors recommend maintaining exposure through the volatility rather than pulling out at the first sign of trouble.

As one perspective notes, short-term volatility is essentially impossible to predict consistently, so a long-term, diversified approach tends to make sense.

In conclusion, **20% annualised volatility** paints a picture of a portfolio that will have a **moderate level of fluctuation** – not trivial, but also not unusual by stock market standards. Understanding it mathematically helps set expectations for daily, monthly, and yearly moves.

Recognising it in historical context shows that it's a normal part of equity investing (with both calm and stormy episodes). And appreciating its implications allows investors to **prepare and strategise**: through diversification, aligning risk with goals, and maintaining discipline.

Volatility at ~20% is the price of admission for many stock investors – by comprehending it and respecting it, one can navigate the market's ups and downs more confidently and effectively. But importantly it also means you can decide you'd like to be a 10% volatility investor too. And that is the most valuable lesson to learn - your risk or volatility capacity.

**RISK WARNING:** All investing is risky. Returns at not guaranteed. Past performance and case studies are no guarantee of future results.

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## **Corrections and Bear Markets**

As of March 2025, the S&P 500 has entered correction territory, declining 10.1% from its recent high. This development has sparked discussions about the potential for a bear market and the implications for investors.

#### **Understanding Corrections and Bear Markets**

A **market correction** is defined as a decline of at least 10% from a recent peak, while a **bear market** is characterised by a drop of 20% or more. Historically, corrections are relatively common and often serve as mechanisms for the market to recalibrate valuations.

However, not all corrections evolve into bear markets. Since World War II, the S&P 500 has experienced 48 corrections, with only 12 (25%) progressing into bear markets. This statistic suggests that while corrections can be unsettling, they do not typically lead to prolonged downturns.

#### **Historical Context**

The last significant correction occurred in late 2023, triggered by concerns over Federal Reserve policy signals. Prior to that, the 2022 bear market saw the S&P 500 decline 25.4% between January 3 and October 12, 2022. These instances highlight that while corrections and bear markets are part of market cycles, their durations and impacts can vary significantly.

#### **Current Market Dynamics**

The recent correction has been influenced by several factors, including concerns over a potential U.S. recession, uncertainty related to tariff policies, and fears of a government shutdown. Additionally, technical indicators such as the percentage of S&P 500 stocks trading below their 200-day moving averages have reached 64.4%, signaling potential market weakness. **Frequency of Corrections Turning Into Bears:** Market corrections (defined as declines of 10% or more from a peak) occur fairly regularly, but only a fraction of them escalate into full bear markets (20%+ declines). Since 1929, the S&P 500 has seen 56 corrections, of which only 22 (around 39%) turned into bear markets.

In more modern eras the odds have been even lower – *since World War II, roughly 25% of corrections have led to bear markets*. For example, from 1971 to 2021 (about 50 years) there were 33 corrections in the S&P 500 and only 7 of those (≈21%) culminated in bear market drops.

During the long bull run from 2009–2020, the market experienced five separate ~10% corrections driven by various fears, yet **none** of those turned into a bear market until an external shock (the 2020 pandemic crash) finally ended that bull cycle. In short, most corrections do **not** become bear markets. *The chart below illustrates this historically: only a minority of corrections "graduate" to bear status.* 

#### S&P 500 corrections & bear markets

The S&P 500 has logged a correction - a decline of 10% or more - 56 times, since 1929, most recently in July-October 2023. Of these only 22 morphed into bear markets, a fall of 20% or more from its most recent high, according to a Reuters analysis of data from Yardeni Research.



By Saqib Ahmed • Source: Yardeni Research

Average Depth and Duration: Corrections that stay as corrections tend to be milder and shorter than bear markets. On average, corrections that don't turn into bears see an S&P 500 drawdown of about –14% and last around 4 months from peak to trough. In contrast, bear markets have historically inflicted an average decline of roughly –35% to –38%.

Bear market downswings also unfold over a longer period – the average bear since 1929 lasted on the order of **10 to 19 months** (roughly **289 days** on average in one study, though some prolonged bears have dragged on well over a year).

For example, the **median** bear market takes about 10 months to find a bottom, versus just ~3–4 months for a typical correction. Historically, bear markets occur periodically (the long-term average frequency is about one every 3–5 years).

Fortunately, they've been relatively infrequent in recent decades (only 15 bears since 1945, about one every 5.1 years). In summary, while 10% pullbacks happen almost yearly on average, only about 1 in 4–5 grows into a true bear market, and those worst-case scenarios, while painful, tend to be much shorter than the multi-year expansions that precede them.

Time for a Correction to Turn into a Bear: When a correction does escalate, it usually becomes evident over several months as losses deepen. Research shows that corrections which **avoid** turning into bears typically bottom out after ~133 days (about 4.4 months) with around a –14% decline, then recover within ~113 days.

However, if the downturn is going to become a bear, the slide tends to continue and last far longer. Going back to 1929, bear markets have taken an average of **~19 months** to reach their ultimate lows. In other words, a garden-variety correction that *is* fated to transform into a bear will usually keep falling past the – 20% threshold and persist for a year or more.

For instance, the 2007–09 bear market slowly ground stocks down over about 17 months, whereas a quick correction like the 10% drop in late 2018 reversed after 3 months once conditions improved. Investors often have some time to recognize a bear forming, as opposed to a swift 10–15% dip that stabilizes.

The **bottom line:** by the time losses mount from –10% toward –20%, typically a worsening fundamental backdrop is unfolding (signaling a bear), whereas if the storm passes in a few months, the market usually resumes its uptrend without

entering a prolonged downturn.

#### Timing and Causes of the Last Bear Market

When and What Caused It: The most recent bear market in the S&P 500 began in early 2022. Stocks peaked on January 3, 2022, then slid into a bear as rampant inflation and aggressive Federal Reserve tightening spooked investors.

This bear market was fundamentally **triggered by the Fed sharply raising interest rates** to combat the worst inflation in decades. Surging prices (inflation hit ~40year highs in 2022) prompted rapid rate hikes, which in turn fueled worries that the economy would tip into recession.

Those recession fears (combined with geopolitical shocks like the Ukraine war) undermined sentiment and led to a prolonged sell-off. Notably, the feared deep recession *never fully materialised* in 2022, but the anticipation of an economic downturn was enough to send the S&P 500 down more than 20%.

From its January high to the low on October 12, 2022, the S&P 500 fell **25.4%**, officially qualifying as a bear market. This decline lasted about **9–10 months**, which is close to an average duration for past bears.

**Duration and Recovery:** The 2022 bear market's trough in October 2022 marked the bottom of that cycle. After that point, the market gradually recovered as inflation began cooling and the economy showed resilience (avoiding a hard recession).

By mid-2023, with inflation rates coming down and the Fed slowing its rate hikes, stock prices had **rebounded significantly** – the S&P 500 gained over 20% from the October low, retracing a large portion of the decline.

However, it took time to approach the prior peak; the index remained below the January 2022 record high for well over a year. This measured recovery reflected lingering caution, but ultimately the market response was positive once it became clear that a "soft landing" (lower inflation without a deep recession) was plausible.

It's instructive to compare this to **the previous bear market (March 2020)**, which was a very different episode. That bear was sparked by the sudden COVID-19 pandemic outbreak and resulting global shutdowns.

The S&P 500 plunged **34%** in just **33 days** in February–March 2020 – the fastest collapse into a bear market on record. Importantly, that crash was met with unprecedented policy response: the Federal Reserve slashed interest rates to zero and unleashed trillions in stimulus, while Congress passed massive fiscal aid. As a result, the 2020 bear market turned out to be **the shortest ever**, and the **recovery was extremely rapid**. Stocks bottomed on March 23, 2020 and then **soared ~55% over the next five months**.

By late August 2020, the S&P had fully regained its pre-pandemic high, marking a full round-trip in roughly half a year. This whiplash turnaround – from a ferocious 1-month bear to a new bull market – was highly unusual.

Most bear markets, including 2022's, do **not** rebound that quickly. In 2022, the Fed was *tightening* (not easing) during the downturn, so the rebound was slower as investors waited for inflation to peak and for the Fed to potentially pause.

*Length and depth of recent S&P 500 bear markets.* The 2007–09 bear (Global Financial Crisis) lasted 17 months and the S&P 500 fell 57%, taking roughly four years to fully recover its losses. In contrast, the 2020 COVID crash (–34%) lasted barely 1 month and was erased in just 5 months of recovery.

The 2022 bear (–25%) lasted about 10 months; its recovery (marked as ongoing in mid-2022 above) was largely achieved throughout 2023 as the market climbed out of the trough.

## Bear Markets: How Deep Is Your Loss?

Length and depth of the latest S&P 500 bear markets

Start	End	Length of bear market (in months)	Length of recovery (in months)	S&P 500 decline
Jan 11, 1973	Oct 3, 1974	21	69	-48%
Nov 28, 1980	Aug 12, 1982	20	3	-27%
Aug 25, 1987	Dec 4, 1987	3	20	-34%
Jul 16, 1990	Oct 11, 1990	3	4	-20%
Mar 24, 2000	Oct 9, 2002	31	56	-49%
Oct 9, 2007	Mar 9, 2009	17	49	-57%
Feb 19, 2020	Mar 23, 2020	1	5	-34%
Jan 3, 2022*	?	?	?	-22%

\* ongoing; as of market close on June 13, 2022 Sources: Yahoo Finance, Goldman Sachs, Statista

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statista 🗹

**Key takeaway:** the last bear market (2022) was relatively short and moderate by historical standards, especially compared to crises like 2008–09, and the market began healing once the root causes (inflation surge and recession fears) started to abate.

#### Key Indicators of a Bear Market

What warning signs typically accompany a bear market? While every cycle is different, bear markets are often foreshadowed by a confluence of **economic and market indicators** turning negative. Here are some key indicators that increase the likelihood of a prolonged downturn:

- Economic Slowdown or Recession: A weakening economy is a classic bear market signal. Bear markets often go hand-in-hand with recessions, meaning GDP growth turns negative and unemployment jumps. When corporate earnings and consumer spending decline broadly, stock prices tend to fall in tandem. Historically, most (though not all) bear markets coincide with recessions and rising joblessness.
- For instance, the severe 2008–09 bear was accompanied by a deep recession and surging unemployment, and the 1973–74 bear overlapped with a stagflationary recession. (Notably, there have been exceptions like 1987 or 1962 where stocks fell sharply without an official recession, but a slowing economy greatly raises bear market odds.)
- Inflation and Interest Rates: High inflation and sharply rising interest rates are bearish omens. When inflation overheats, the Federal Reserve and other central banks respond by hiking interest rates, which increases borrowing costs and can choke off economic growth. Many historical bears have been preceded or triggered by aggressive Fed tightening cycles.
- For example, the bear markets of the early 1980s corresponded with the Fed's fight against double-digit inflation (pushing interest rates up dramatically), and the 2022 bear market was precipitated by the Fed's rapid rate hikes in response to red-hot inflation. As rates climb, bonds become more attractive relative to stocks and companies face higher financing costs, putting downward pressure on equity valuations.
- An inverted yield curve (short-term rates rising above long-term rates) is one specific warning sign – it reflects tight monetary conditions and has historically been a reliable predictor of recessions and bear markets. In short, tightening financial conditions – whether via interest rate hikes, reduced liquidity, or a yield curve inversion – often herald an oncoming bear.

- Corporate Earnings Deterioration: Earnings are the engine of stock prices. When corporate profits begin to decline for multiple quarters, it's a strong indicator that the market may be heading for trouble. In bear markets, we typically see company earnings fall as the economy slows or costs rise. For example, ahead of the 2000–2002 bear market, many tech companies saw earnings and revenue falter after the dot-com boom peaked.
- Similarly, in 2007–08, bank and corporate profits turned downward as the housing market cracked. If forward earnings guidance is being cut broadly and profit margins shrink, stocks often price in a steeper decline.

Weak sales and high inventories (companies unable to sell product as expected) are related red flags that demand is weakening. In essence, a trend of deteriorating fundamentals – slower revenue growth, declining earnings, and other signs of corporate strain – is a hallmark of bear market conditions.

Investor Sentiment and Market Sentiment: Extremes in investor
 psychology can signal a coming inflection point. Bear markets are often
 preceded by a period of euphoric sentiment and overvaluation – a "boom"
 where investors assume markets will only go up.

Such was the case in the late 1920s prior to the 1929 crash, the late 1960s Nifty Fifty craze, and the late 1990s dot-com bubble. In those episodes, valuations reached unsustainable levels and speculative behaviour was rampant (IPO frenzies, retail trading manias, etc.).

When reality failed to meet those overoptimistic expectations, the market reversed violently. Conversely, once a bear is underway, sentiment swings to extreme pessimism (high fear indicators, spikes in the volatility index VIX, bearish investor surveys). While fear itself usually *lags* the start of a bear, the excessive optimism at the prior peak is a warning sign in hindsight.

- Analysts monitor measures like price-to-earnings ratios, investor leverage, and surveys of bullish vs. bearish sentiment for signs of complacency.
   Widespread speculative excess for example, the crypto and meme-stock mania seen in early 2021 can indicate that a market is overheated and vulnerable to a sharp downturn. In summary, "too good to be true" sentiment and valuations often precede bear markets, while panic and capitulation tend to mark their later stages.
- Federal Reserve Policy and Credit Conditions: The stance of central banks and overall credit conditions play a pivotal role. As noted, Fed tightening is a common thread in many market peaks. When the Fed is withdrawing support raising rates or tapering bond purchases it removes a key tailwind for stocks. Liquidity dries up and risk assets re-price lower. A classic pattern is that the Fed will hike rates until "something breaks" economically, leading to a market drop. On the flip side, the Fed easing policy (rate cuts, stimulus) often helps put a floor under stocks. For example, in late 2018 the Fed's signals of a pause/cuts helped halt a steep correction.
- Credit market stress is another factor: widening credit spreads (investors demanding higher yields on corporate bonds due to default fears) can signal that financial conditions are eroding a canary for the stock market. The 2008 crisis is an extreme case where frozen credit markets and banking woes fuelled the equity bear. Thus, observers watch things like the health of the banking system, corporate debt levels, and bond spreads. Deterioration there often accompanies bear markets.
- In short, bear markets usually emerge when monetary and financial conditions tighten significantly – whether due to policy choices (rate hikes) or forced by events (credit crunches) – which in turn stifles economic and profit growth.

No single indicator guarantees a bear market, but **a combination** of the above signals strengthens the case that a downturn could deepen. For instance, an inverted yield curve coupled with falling corporate earnings and overly bullish stock valuations would be a worrisome mix. Investors and analysts keep an eye on these metrics to gauge whether a 10% correction is likely to snowball into

something worse. If multiple red flags are flashing together, the probability of a bear market rises.

#### **Comparative Analysis of Past Market Cycles**

**Current vs. Past Corrections:** To evaluate whether the recent 10% correction is likely to deepen, it helps to compare current market conditions to those before past corrections and bear markets.

One key factor is the **economic backdrop.** Many historical corrections that *stayed* as corrections occurred during ongoing economic expansions – the market dipped on fears or shocks but the economy's underlying health kept the downturn shallow.

For example, in 2011 the S&P 500 fell nearly 19% amid U.S. credit rating downgrade fears and Eurozone debt worries, but the U.S. economy avoided recession and the market recovered within months. Similar mid-cycle corrections happened in 2016 and late 2018; growth wobbled but did not collapse, and policy adjustments (like the Fed pausing rate hikes) helped stocks rebound. In contrast, the corrections that **evolved into bear markets** usually coincided with clear economic cracks: 2000's correction became a bear as the dot-com bubble burst and a recession hit in 2001; a modest 2007 market pullback snowballed once the financial system started melting down, leading to the 2008–09 crash.

**Today's environment does not (so far) exhibit the severe imbalances** seen before the worst bears. For instance, **corporate and bank balance sheets are generally stronger** than in 2007, and while interest rates have risen, we are not seeing the kind of systemic credit freeze that precipitated the GFC bear market. The question is whether the current correction is more akin to an **ordinary growth scare** (like 2011 or 2018), or an early phase of a serious downturn. **Macroeconomic and Policy Factors:** Coming into this correction, unlike the 1970s, inflation now appears to be easing after peaking, and the Fed may will next lower rates twice this year probably. Unemployment remains relatively low and GDP growth, while slowing, has not plunged into an outright contraction – this contrasts with periods just before deep bears, when the economy was clearly on the cusp of recession (e.g., late 2007 or early 2001, when economic activity was rolling over).

**If the economy can avoid a recession** (or experience only a mild one), history suggests the market is more likely to experience a correction-level decline rather

than a protracted bear. In fact, there have been 27 bear markets since 1928 but only 15 recessions in that time – meaning roughly *half* of bear markets coincided with recessions, and the rest were market-driven.

The current correction was partly sparked by fears of recession due to Trump tarriffs, but so far the economic data (e.g. job growth, consumer spending) has held up better than in past pre-bear episodes.

This situation is somewhat analogous to 1998 or 2018: in both cases the Fed tightened and markets swooned (~20% drop in 1998, ~19% in late 2018), yet no recession followed and markets quickly rebounded.

**Key indicators to watch now** are whether economic indicators start deteriorating sharply (e.g. if unemployment suddenly jumps or corporate earnings collapse). If not, the correction may stabilise. Furthermore, Fed policy is crucial – a pivot to faster easing could boost confidence. By late 20245(hypothetically), if inflation is under control, the Fed might even cut rates twice, which would be a bullish catalyst much unlike a typical bear market scenario where the Fed is still tightening into the downturn.

**Market Conditions and Valuations:** Another comparison point is **valuation levels and market froth**. Prior to major bears like 2000 or 2008, asset valuations were extremely stretched (the S&P 500 P/E ratio exceeded 30 in the tech bubble, and housing prices and leverage were at records in the mid-2000s).

In the current market, valuations have moderated after the recent pullback. The S&P 500's forward price-to-earnings ratio has fallen to around **18**, which is actually **below its 5-year average (~19)** after this correction.

That suggests stocks are not in a wildly overvalued territory relative to recent norms. In other words, we are not coming off a true bubble peak in broad equities (certain segments had high valuations, but not to the extent of past manias).

**Corporate earnings** also continue to grow modestly in aggregate, whereas heading into the 2000–02 bear, earnings growth stalled out, and in 2008 earnings plummeted.

Today's profit outlook is more mixed but not all-out negative – many companies are still reporting solid results, and consensus forecasts (while maybe optimistic) have not been slashed dramatically.

This relative earnings strength and reasonable valuation could indicate the market is correcting from an overbought condition rather than pricing in a fundamental collapse. It's worth noting, too, that investor sentiment has already turned cautious during this correction (evidenced by high cash allocations and defensive positioning), which can actually be a contrarian positive sign if extreme pessimism is reached.

In sum, **current market conditions** – moderate valuations, still-solid corporate earnings, and the lack of an obvious asset bubble – look more similar to past **short-lived corrections** than to the conditions preceding severe bears.

**Patterns and Anomalies:** Historically, bear markets tend to be spaced out, not clustered back-to-back. It's relatively rare to see many bear markets in quick succession. The fact that we already endured a bear in 2020 and again in 2022 raises the question: is another one *so soon* likely, or would that be an anomaly?

According to market historians, having **three bear markets within a five-year span would be unprecedented in modern times**. (For perspective, the 1970s featured a couple of bears early in the decade and another in 1981–82, but generally decades see 0–2 bears. The 1990s and 2010s had *zero* true bear markets in the S&P 500, while the 2000s had two – the tech bust and the financial crisis.)



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Bear markets per decade for the S&P 500 (based on when they started):

'50s - 1 '60s - 3 '70s - 1 '80s - 2 '90s - 0 '00s - 2 '10s - 0 '20s - 2

Could we really have a third bear this decade? Anything is possible but we've never seen 3 bears start within 5 years of each other.

The 2020s have already seen two bears in rapid succession (the pandemic crash and the 2022 decline). **Statistically, a third bear market forming immediately on the heels of these would break historical norms**.

*Bear markets per decade for the S&P 500.* As the graphic shows, most decades since the 1950s experienced at most two bears. The 2020s ('20s) already count two bear market starts (2020 and 2022).

Having another commence in the same decade (especially so early in the decade) would be highly unusual. This doesn't mean it *cannot* happen – every period is unique – but the odds, based on frequency alone, lean against a third severe drawdown so quickly.

This pattern suggests that the market may instead be in a normal correction within an ongoing cycle, rather than at the start of yet another bear market so soon after the last one. Outlook – Will the 10% Correction Deepen? Considering the comparisons above, the evidence leans toward cautious optimism that this is a correction and not the start of a major bear. The current correction, while certainly concerning, lacks some of the key ingredients that have defined true bear markets (such as a looming recession with spiking unemployment, extreme asset valuation bubbles, or a systemic financial crisis).

Instead, it appears more driven by a re-pricing to tighter monetary conditions and growth uncertainties – factors that can cause a 10–15% pullback but are reversible if conditions improve.

Indeed, if inflation continues to ease and the Federal Reserve signals a dovish shift, that would mirror scenarios like mid-1990s or 2018 when corrections gave way to renewed rallies. Markets have already begun to stabilise recently on hopes that rate hikes may be nearly done.

History also tells us that staying invested through corrections is often prudent, as most do *not* turn into bears and the market often recovers within months. Of the 15 corrections since 2008, all but two saw the market higher a year later, with an average +15% gain in the following year.

While past performance is no guarantee, this underscores that *more often than not* corrections are temporary detours, not trend reversals.

That said, vigilance is warranted. If new data emerges showing the economy cracking (for example, if corporate earnings plunge unexpectedly or geopolitical risks trigger a shock), the calculus could change.

A few cautionary comparisons remain: Trump Tarriffs, global risks – energy prices, war, etc. – could yet surprise. But absent a clear catalyst for a deep

contraction, the **base case** is that this 10% pullback is part of a normal market cycle adjustment.

Market veterans often note that **bear markets require a "cause"** – be it an economic recession, a financial implosion, or extreme overheating – and while we do see pressures (inflation, etc.), we also see a resilient economy and proactive policy which mitigate those causes.

#### Sources:

- S&P 500 correction and bear market statistics Yardeni Research data via *Reuters* (S&P 500 correction in six charts | Reuters) (S&P 500 correction in <u>six charts | Reuters</u>); Carson Investment Research (<u>Houston, We Have a</u> <u>Correction. Now What? - Carson Group</u>).
- Historical bear market frequency, depth, and duration Ned Davis Research via Hartford Funds (<u>10 Things You Should Know About Bear</u> <u>Markets</u>) (<u>10 Things You Should Know About Bear Markets</u>); S&P Dow Jones Indices via AP News (<u>A 10% drop for stocks is scary, but isn't that</u> <u>rare</u>) (<u>A 10% drop for stocks is scary, but isn't that rare</u>); Yardeni data via <u>Reuters (Say goodbye to the shortest bear market in S&P 500 history |</u> <u>Reuters</u>).

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# How Have Historical Tariff Announcements Affected the Stock Market

Historically, tariff announcements have often caused significant volatility in the stock market, as they introduce uncertainty about global trade relationships, corporate earnings, and economic growth. Here are a few notable examples of how past tariff-related events have impacted the markets:

1. Smoot-Hawley Tariff Act (1930)

**What Happened**: The U.S. imposed high tariffs on over 20,000 imported goods in an effort to protect domestic industries during the Great Depression.



**Market Reaction**: The act is widely believed to have exacerbated the Great Depression by triggering retaliatory tariffs from other countries, reducing global trade. The stock market continued its downward spiral, with the Dow Jones losing nearly 90% of its value from its 1929 peak by 1932.

#### 2. Steel and Aluminum Tariffs (2018)

**What Happened**: In March 2018, President Trump announced tariffs of 25% on steel and 10% on aluminum imports.

## Who Is Affected by Trump's Steel and Aluminum Tariffs?

Billions of dollars



**Market Reaction**: The stock market initially dropped sharply due to fears of a trade war but later stabilised. However, specific sectors like manufacturing and agriculture faced prolonged pressure due to higher input costs and retaliatory tariffs from trading partners like China and the EU.

#### 3. U.S.-China Trade War (2018-2019)

**What Happened**: The U.S. imposed multiple rounds of tariffs on Chinese goods, prompting retaliatory measures from China.



Source: Bloomberg

Market Reaction: Markets experienced heightened volatility throughout the trade war. For example:

- In May 2019, when additional tariffs were announced, the Dow Jones fell over 600 points in a single day.
- Tech stocks were hit particularly hard due to concerns about supply chain disruptions and reduced demand in China.
- By late 2019, partial agreements (e.g., "Phase One" deal) helped markets recover.

#### 4. Tariffs on Mexico (2019)

**What Happened**: President Trump threatened tariffs on Mexican imports unless Mexico took action to curb illegal immigration.

### **U.S. and Mexican economies inseparable**

U.S. imports from Mexico totaled \$347 billion in 2018. Here are the top trade items:



**Market Reaction**: The Dow fell nearly 1,000 points over several days as investors feared disruptions to North American trade. Markets rebounded after the tariffs were called off following negotiations.

#### **Key Takeaways from Historical Trends**

- 1. **Short-Term Volatility**: Markets typically react negatively to tariff announcements due to uncertainty about their economic impact.
- 2. **Sector-Specific Impacts**: Industries reliant on global supply chains—such as technology, manufacturing, and agriculture—are often hit hardest.

- 3. Long-Term Effects Depend on Retaliation: If trading partners impose countermeasures, the economic impact can deepen, prolonging market instability.
- 4. **Safe-Haven Assets Rise**: Gold and U.S. Treasury bonds tend to rally during tariff-induced market turmoil as investors seek safer investments.

While historical patterns suggest that markets often recover after initial shocks, prolonged or widespread trade disputes can lead to lasting economic consequences. Investors typically monitor developments closely and adjust portfolios based on perceived risks and opportunities.

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# Were There Any Notable Companies That Significantly Benefited or Suffered From The 1980s Tariffs

Yes, several companies in specific industries either significantly benefited or suffered from the tariffs and trade policies of the 1980s. These effects were most pronounced in sectors like steel, automobiles, and semiconductors, which were directly impacted by protectionist measures. Below is a breakdown of notable companies that were affected:

### **Companies That Benefited from 1980s Tariffs 1. U.S. Steel Corporation (Steel Industry)**



**How They Benefited**: The Reagan administration's tariffs and quotas on imported steel provided temporary relief to U.S. steelmakers, including U.S. Steel

Corporation, which was struggling due to competition from cheaper foreign imports (particularly from Japan and South Korea).

**Outcome**: While the tariffs helped stabilize the company in the short term, they failed to address deeper structural inefficiencies in the U.S. steel industry. Over time, U.S. Steel continued to face challenges as global competition intensified.



### 2. General Motors (GM), Ford, and Chrysler (Automobile Industry)

**How They Benefited**: The Voluntary Export Restraints (VERs) negotiated with Japan in 1981 limited the number of Japanese cars exported to the U.S., giving domestic automakers breathing room to regain market share.

**Outcome**: The Big Three automakers—GM, Ford, and Chrysler—saw short-term improvements in sales and profitability. However, Japanese automakers like Toyota and Honda responded by establishing manufacturing plants in the U.S., which eroded the long-term effectiveness of the VERs.



3. Intel and Texas Instruments (Semiconductor Industry)

**How They Benefited**: The Semiconductor Trade Agreement of 1986 imposed restrictions on Japanese semiconductor imports and required Japan to open its markets to American chipmakers.

**Outcome**: Companies like Intel and Texas Instruments gained market share as a result of these measures. This protection helped lay the foundation for the eventual dominance of U.S. semiconductor firms in the global market during the 1990s and beyond.

### Companies That Suffered from 1980s Tariffs

### 1. Caterpillar Inc. (Heavy Machinery Industry)

How It Suffered: As a major exporter of heavy machinery, Caterpillar faced retaliatory tariffs from trading partners in response to U.S. protectionist policies.
Outcome: These retaliatory measures hurt Caterpillar's international sales and competitiveness, contributing to financial struggles during parts of the decade.

### 2. Retailers Dependent on Imports

**Example Companies**: Retailers like Sears and Kmart saw increased costs for imported goods due to tariffs on materials like steel and electronics.

**How They Suffered**: Higher input costs led to reduced profit margins, particularly for companies that relied heavily on foreign-made products.

### 3. Japanese Automakers Operating in the U.S. Market

**Example Companies**: Toyota, Honda, and Nissan initially suffered under the Voluntary Export Restraints (VERs), as they were forced to limit exports of their vehicles to the U.S.

**Outcome**: While these companies faced short-term setbacks, they adapted by building manufacturing plants in the U.S., which allowed them to circumvent export limits and ultimately strengthen their position in the American market.

### **Key Takeaways**

- 1. Short-Term Relief vs. Long-Term Adaptation:
  - Domestic companies like GM or Intel benefited temporarily but still faced long-term competitive pressures as foreign competitors adapted.
  - Foreign companies like Toyota turned challenges into opportunities by localising production.

### 2. Structural Challenges Remained Unresolved:

- For industries like steel, tariffs provided only a temporary reprieve without addressing underlying inefficiencies or lack of modernisation.
- 3. Retaliation Hurt Export-Oriented Companies:
  - Firms like Caterpillar that relied on global markets were negatively impacted by retaliatory tariffs imposed by trading partners.

### Conclusion

While some companies gained short-term advantages from 1980s tariffs, others struggled with higher costs or retaliatory trade measures. Notably, many foreign competitors adapted quickly, mitigating the long-term effectiveness of protectionist policies for U.S.-based companies. This dynamic underscores how tariffs often create winners and losers within specific industries while having broader implications for global trade relationships over time.

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# How Do Market Corrections Typically Impact Different Sectors of the Stock Market



Market corrections typically affect various sectors of the stock market differently, depending on the underlying economic conditions, investor sentiment, and the nature of the correction. Here's an overview of how different sectors tend to perform during corrections:

### **1. Technology Sector**



**Impact**: The technology sector often experiences the sharpest declines during corrections due to its high valuations and reliance on growth expectations. Investors tend to sell riskier assets first, and tech stocks are often among the most volatile.

**Historical Example**: During the 2000 dot-com bubble burst, tech stocks saw massive losses, with the Nasdaq Composite losing nearly 78% of its value.

**Current Context (2025)**: The "Magnificent Seven" tech stocks have led the current correction due to AI competition and valuation concerns.

### 2. Consumer Discretionary

# CONSUMER DISCRETIONARY

**Impact:** This sector is highly sensitive to economic conditions. During corrections, reduced consumer spending can lead to significant dieclines in retall, travel, and luxury goods companies.



### **Historical Example:**

In the 2008 financial crrisis, consumer discretionary stocks were hit hard as unemployment rose and spending declined.

**Resilience:** Companies with strong brand loyalty or diversified revenue streams may fare better.

**Impact**: This sector is highly sensitive to economic conditions. During corrections, reduced consumer spending can lead to significant declines in retail, travel, and luxury goods companies.

**Historical Example**: In the 2008 financial crisis, consumer discretionary stocks were hit hard as unemployment rose and spending declined.

**Resilience**: Companies with strong brand loyalty or diversified revenue streams may fare better.

### 3. Financials

# FINANCIALS

**Impact:** Financial stocks can see mixed performance depending on the nature of the correction. If interest rates rise or economic uncertainty increases, banks and lenders may suffer due to reduced borrowing and potential loan defaults.



### **Historical Example:**

In 2008, financials were at the epicenter of the crisis, with major institutions failing or requiring bailouts.

**Current Context:** Financial stocks may be impacted by inflation concerns and geopolitical risks tied to tariffs.

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**Historical Example**: In 2008, financials were at the epicenter of the crisis, with major institutions failing or requiring bailouts.

**Current Context**: Financial stocks may be impacted by inflation concerns and geopolitical risks tied to tariffs.

### 4. Energy



**Impact**: Energy stocks are influenced by global oil prices and geopolitical tensions. Corrections tied to economic slowdowns can reduce demand for energy, leading to declines in this sector.

**Historical Example**: In 2020, energy stocks plummeted as oil prices crashed during COVID-19 lockdowns.

**Resilience**: Renewable energy companies may be less affected if long-term trends favor green investments.

### 5. Healthcare



Healthcare tends to be more resilient during corrections because it is considered a defensive sector. Demand for healthcare services remains relatively stable regardless of economic conditions.

### **Historical Example:**

During the 2020 pandemic–driven correction, healthcare stocks performed better than most other sectors due to increased demand for treatments and vaccines. **Impact**: Healthcare tends to be more resilient during corrections because it is considered a defensive sector. Demand for healthcare services remains relatively stable regardless of economic conditions.

**Historical Example**: During the 2020 pandemic-driven correction, healthcare stocks performed better than most other sectors due to increased demand for treatments and vaccines.

### 5. Consumer Staples

### **CONSUMER STAPLES**

**Impact:** Like healthcare, consumer staples (e.g. food, beverages, household goods) are considered defensive because they provide essential products that consumers continue buying even during economic downturns.



**Historical Example:** Staples outperformed other sectors during the 2008 financial crisis as investors shifted toward safety.

**Impact**: Like healthcare, consumer staples (e.g., food, beverages, household goods) are considered defensive because they provide essential products that consumers continue buying even during economic downturns.

**Historical Example**: Staples outperformed other sectors during the 2008 financial crisis as investors shifted toward safety.

### 7. Industrials



**Impact**: Industrials are cyclical and tend to decline during corrections tied to economic slowdowns or reduced business investment.

**Historical Example**: The sector struggled during the 2008 crisis but rebounded strongly during recovery phases driven by infrastructure spending.

### 8. Utilities



**Impact**: Utilities are another defensive sector that often performs well during corrections because they provide essential services like electricity and water.

**Historical Example**: Utilities held up relatively well during past corrections like 2020 as investors sought stability.

# **Real Estate**

### Impact:

Real estate investment trusts (REITs) can be affected by rising interest rates or declining consumer confidence during corrections. However, certain segments like residential real estate may remain resilient.

**Historical Example:** Real estate was heavily impacted in 2008 due to the housing market collapse but has shown resilience in other corrections.

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### **Key Takeaways:**

- 1. Defensive sectors like healthcare, consumer staples, and utilities tend to perform better during corrections due to their stable demand.
- 2. Cyclical sectors like technology, consumer discretionary, and industrials are more vulnerable as they rely on growth or economic expansion.
- 3. Diversification across sectors can help mitigate risks during market corrections.

Investors should monitor macroeconomic indicators and sector-specific trends to make informed decisions about portfolio adjustments during a correction.

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## Which Sectors Are Most Resilient During Market Corrections



During market corrections, certain sectors are more resilient than others due to their stable demand, defensive nature, or ability to withstand economic downturns. Here are the sectors that typically perform best during market corrections:

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### Healthcare



Why It's Resilient: Healthcare is considered a defensive sector because medical services, pharmaceuticals, and treatments are essential regardless of economic conditions. People continue to prioritise health-related spending even during financial uncertainty.

**Historical Example**: During the 2020 COVID-19 correction, healthcare stocks performed relatively well as demand for vaccines and treatments surged.

### Sub-Sectors to Watch:

- Pharmaceuticals
- Biotechnology
- Medical devices
- Health insurance providers

### 2. Consumer Staples



**Why It's Resilient**: Consumer staples include companies that produce essential goods like food, beverages, and household products. These items remain in demand even during economic downturns, making the sector less volatile.

**Historical Example**: During the 2008 financial crisis, consumer staples outperformed most other sectors as investors shifted toward safety.

### Sub-Sectors to Watch:

- Packaged foods
- Beverage companies
- Personal care products

### 3. Utilities



**Why It's Resilient**: Utilities provide essential services like electricity, water, and gas, which consumers and businesses require regardless of market conditions. The sector is also known for paying stable dividends, attracting income-focused investors during volatile periods.

**Historical Example**: Utilities held up well during the 2020 pandemic-driven correction as investors sought stability.

### Sub-Sectors to Watch:

- Electricity providers
- Water utilities
- Renewable energy utilities

### 4. Real Estate (Selective)



**Why It's Resilient**: While real estate can be cyclical, certain segments like residential real estate or healthcare-related properties (e.g., senior housing) tend to be more stable during corrections. Real estate investment trusts (REITs) focused on these areas can provide steady income through dividends.

**Historical Example**: Residential REITs showed resilience during past corrections compared to commercial real estate.

### 5. Communication Services (Selective)



Why It's Resilient: Certain sub-sectors within communication services—like internet providers and streaming platforms—are less affected by economic downturns as consumers continue to use these services for entertainment and connectivity.

### Sub-Sectors to Watch:

- Streaming services
- Telecommunications

### **Characteristics of Resilient Sectors During Corrections**

- 1. **Essential Goods/Services**: Sectors providing necessities tend to outperform as demand remains steady.
- 2. **Stable Cash Flows**: Companies with predictable revenue streams attract investors seeking safety.
- 3. **Dividend Payments**: Sectors known for consistent dividends (e.g., utilities and consumer staples) appeal to risk-averse investors.

### **Investment Strategy During Corrections:**

Investors often rotate into these resilient sectors to protect their portfolios during market downturns. Diversification across defensive sectors can help mitigate losses while maintaining exposure to long-term growth opportunities in other areas.

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