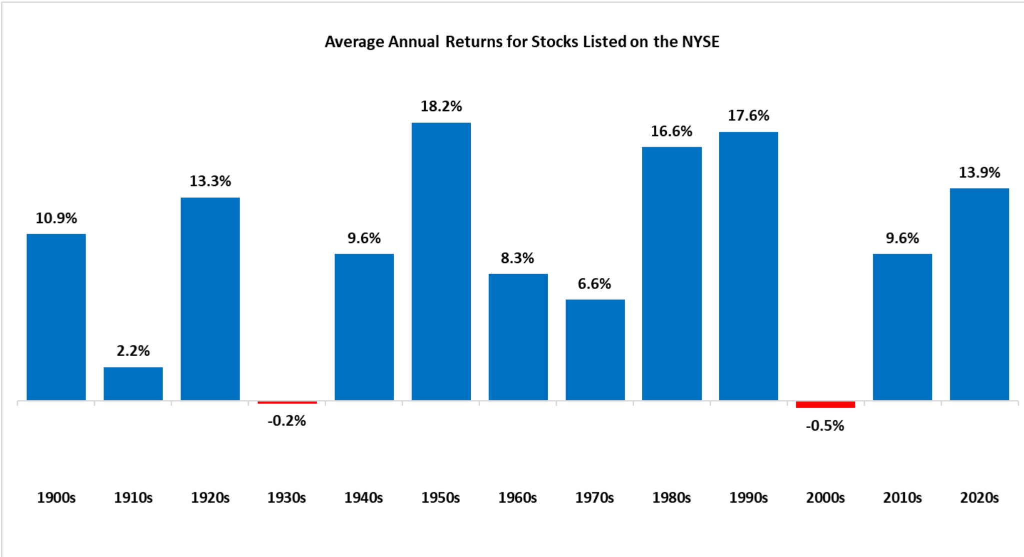
# Assessing Long-Term Stock Risk

## November 8, 2021




The $64 dollar question for long-term investors is: How can I increase the chances that I will have sufficient savings to live comfortably in retirement? The inherent factor in this decision is how much "risk" is associated with the way in which I choose to invest my assets? Traditional ways of measuring risk when investing in the stock market centers around the idea of share price volatility. Even though there are over 200 different risks that stock and bond investors can be exposed to, the share price volatility risk is the one that most firms and investors are sensitive to.

For long-term investors, volatility risk is almost non-existent as reflected in the chart above that plots the history of stock market returns for each decade going back to the 1900s. Take a closer look to see that in only two decades, the 1930s and the 2000s, did a long-term investor lose money—but less than 1%! Current investors asking the question where do we go from here? should look at the parallel between the stock market performance of the 1950s and this decade.

The 1940s were characterized by a World War followed by increased consumer demand that triggered a temporary jump in inflation. Recently, we have been through a "pandemic war" that has triggered a temporary increase in inflation due to several reasons unrelated to other inflationary times in U.S. economic history. The 1950s should go down as the Roaring Fifties as average annual returns in the stock market were 18.2%! This is the first year of the 2020s and through early November, the average returns of major indices are above 20%! We are off to a very good start. Some naysayers suggest that a tax rate increase will put the kibosh on the market rally yet when looking back at the Roaring Fifties we see that the maximum personal income tax rate was a whopping 92%. Tax rates will unlikely stop this market rally!

If our country's history is any guide as to the future of our domestic equity markets, there is a good chance that the best is yet to come. Of course, there will always be short term digressions from the long-term trend but that will not stop the stock market from continuing to grow and our economy from getting back onto a solid growth track.

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