CLIENT'S CORNER

Why Hasn't The Market Crashed Like It Was Supposed To?

LET THE RECORD SHOW THAT ON THE night before Election Day 2016—November 7—the Standard & Poor's 500-Stock Index closed at 2,131.52. We will have occasion to refer back to this number in just a few moments.

During that day, depending on what mainstream media outlets you patronize, you were quoted the probability of the election of Hillary Clinton between 77% and 99.9%. That fact alone will, if you let it, give you some idea of where this essay is heading.

Those same media opined, more or less in unison, that Mrs. Clinton's opponent, the bizarrely-coiffed New York real estate developer and reality-TV star Donald J. Trump, was a feckless vulgarian who does not read books, a person entirely without background or interest in the legislative process, an economic illiterate, and a narcissistic late-night tweeter apparently unburdened by adult impulse control. (Friend and foe alike would probably acknowledge, a year on, that much of this characterization turned out to be, shall we say, not entirely inaccurate.)

But then—and here we begin edging gingerly toward the point of this little essay—the aforementioned mainstream media, joined by financial pundits all around the globe, went on to assure you that, on the off chance Mr. Trump was elected, the economy would descend into chaos and the stock market would surely crash. In the event, this prediction ***was*** entirely inaccurate.

The intervening twelve months have seen a continuation of serially (and relentlessly) dire forecasts. At one time or another, you have been quite authoritatively informed that:

• Valuations in the equity market have gone borderline stratospheric (the dreaded Shiller CAPE ratio back near 1929 levels!), surely signaling an imminent collapse in stock prices.

• The equity market (if not the entire global economy) is floating on an exquisitely fragile bubble of central bank monetary stimulus, such that at the first hint of withdrawal of said punch bowl, the equity market would simply implode.

• The length of the current economic expansion is consistent with the onset of previous economic recessions, such that it is only reasonable to assume that the next one is imminent.

• Ditto the bull market: if you don't count the six-month 19.4% drop in 2011 as a bear market (and mainstream media for whatever reason do not), this "rally" has now run for nearly nine years. The average time between bear markets being five to six years, we are now so overdue for a crackup that it should begin at any moment, with no warning.

• Not to mention a plethora of single-variable factoids—a spike in subprime auto loan delinquencies, to cite one of the sillier examples—presented as the proverbial canary in the coal mine who just keeled over dead.

How terribly strange, then—if not counterintuitive, if not downright, flat-out ***wrong***—to observe that on the day after Election Day 2017 (November 8), the S&P 500 closed at 2,594.38. This represents a gain, in a year and one day, of 21.6%. Ah, but that ignores dividends, which—in steadily increasing amounts throughout the intervening year—paid the patient, disciplined, goal-focused investor some two percent, bringing his/her total compound return for these twelve months to something right around 24%. And just about all he/she was required to do in order to earn that return was to ignore the headlines.

You may—and I daresay no few readers will—respond that the long overdue, richly deserved crash in the equity market just hasn't happened ***yet***, and that the fools who continue to own equities will surely reap the whirlwind…any minute now.

Although you may not immediately perceive this to be a direct response to that view, let me tell you what I've found, during my fifty year career in investing, to be by far the most powerful of all the emotions humans bring to the markets. It isn't greed, and it isn't fear. It's **regret**.

Everyone I've ever known who liquidated what should have been a lifetime equity portfolio in response to disasters real and imagined lived to regret having done so—and quite bitterly at that—for the rest of their lives.