Disciplined Wealth Management

06/30/2023 Quarterly Newsletter

Discipline is the key to success

With every approach to the stock market, bear in mind that there will always be periods of over-performance and periods of under-performance. Here at Disciplined Wealth Management (DWM), our goal is to concentrate your portfolio in the leading asset classes while avoiding the performance-sapping lagging asset classes; over the long term, our approach strives to provide you with better performance compared to the overall stock market average (the S&P 500) and with less risk. In summary – stay disciplined during times of under-performance; don't become emotional and abandon a proven long-term strategy during a usually short period of under-performance, but stick with it and let the strategy work for you. If someone says they are never wrong, they have just proven themselves otherwise.

Halftimes in Secular Bull Markets
Are Discouraging but have been a Great Buying Opportunity!

Secular bull or bear markets often last decades and contain a series of shorter cyclical bull and bear markets.

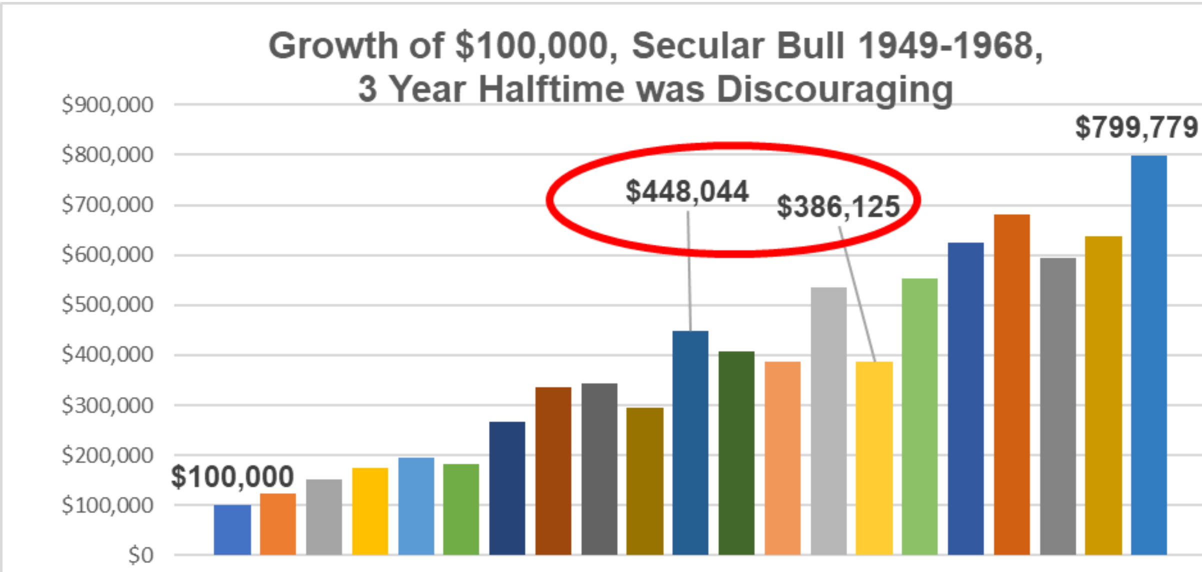
- A secular bear market encompasses a series of cyclical bears which are typically deep and the cyclical bull markets only recover prior bear market losses. The result is a lengthy period (secular) where the market makes little or no progress. The most recent example was from 3/24/00 through 10/3/11, with three cyclical bear markets and two cyclical bulls, resulting in a total loss of 28% over 11+ years.
- A secular bull market is also composed of shorter cyclical bull and bear markets, but where the market experience large gains, moving higher with a series of higher highs and higher lows. The 1949-68 secular bull gained almost 700%, only to be surpassed by a 1400% gain in the 1982-2000 secular bull.

The market is currently in a secular bull market that began back in 2011. However, the past three years certainly does not feel as good as the first nine years. In fact, many investors are worried over the future and thinking of abandoning equites in favor of fixed income investments, which could be a timely and expensive mistake.

Why? In studying the past two secular bull markets and the current case, secular bulls have halftimes. A period of three years where prices make little progress encompassing a couple of bear markets and often a recession. It is easy to lose faith. However, history shows that the lackluster halftimes have been followed by a resumption of the secular bull and triple digit gains over the next decade.

Secular Bull 1949-68

Following WWII, a secular bull began in 1949 and lasted just shy of 20 years. In the first decade, by mid-1959 the S&P 500 had gained almost 350%. But from 8/3/59 through 6/26/62, the secular bull was interrupted by two bear markets and a recession (4/60-2/61). During this 3-year halftime period, while a new high was briefly reached, it ended with a decline of 14%.



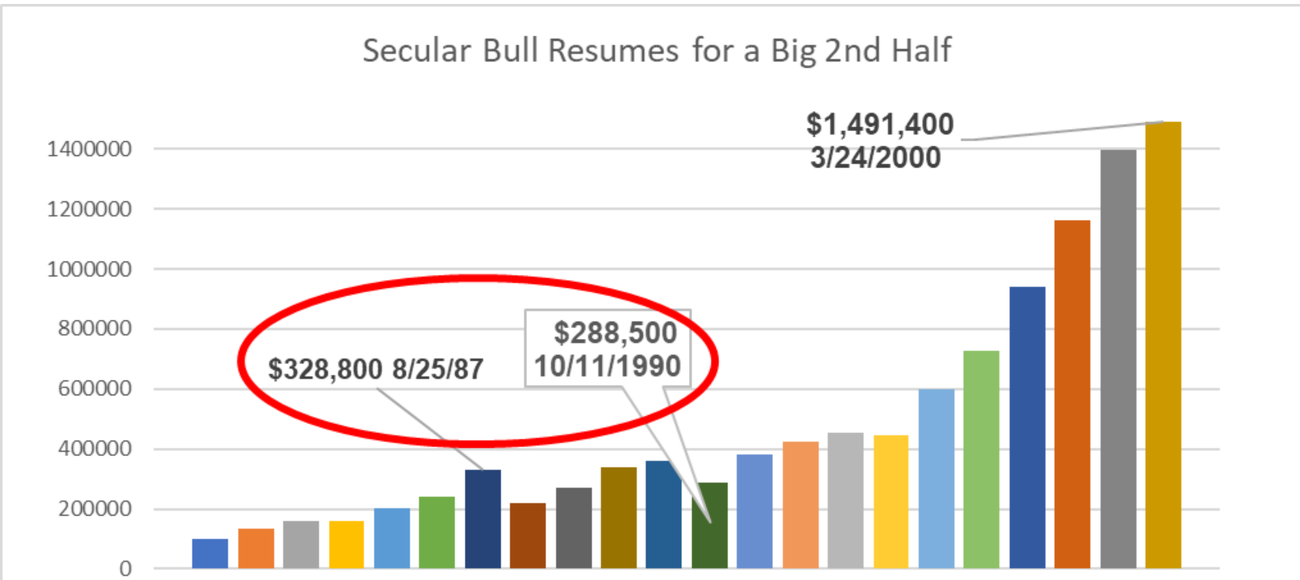
Source: Stock Trader's Almanac 2023

It would have been easy to get discouraged, after enjoying a full decade of 300% gains, only to experience a 3-year period of bear markets, a recession, and losses. However, it was just a halftime show, followed by a resumption of the secular bull market. Investors that had patience experienced total gains of 700% by the time the secular bull ended in 1968.

Secular Bull 1982-2000

The secular bull market from 1982-2000 started out slower than the 1949-68 secular bull. It gained over 228% in the first five years, before going into its halftime. In the fall of 1987, the market was hit by Black Monday, when stocks fell over 20%. Two causes of the meltdown were program trading with no circuit breakers and the Federal Reserve publicly threatened to de-value the US dollar to narrow the nation's widening trade deficit.

Stocks slowly recovered in the following two years and were able to reach a new high by July 1990, almost three years later. But that rally was cut short as the economy fell into a brief recession and the stock market into a new cyclical bear market. The halftime show for 1982-2000 lasted over three years with the S&P 500 falling 12%.

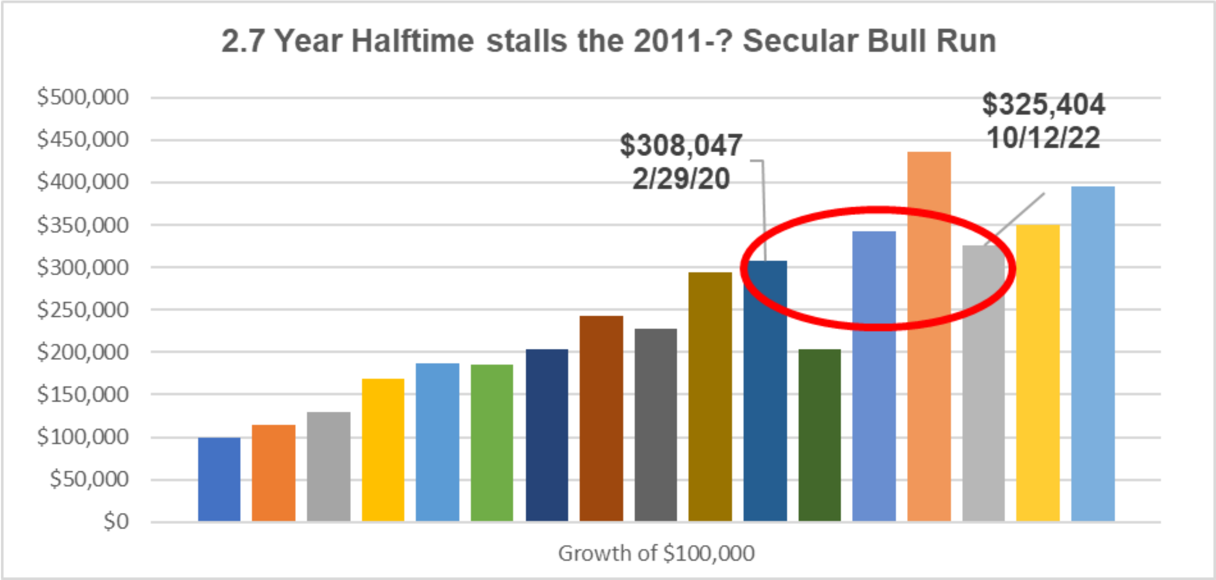


Source: Stock Trader's Almanac 2023

Investor's willingness to stay the course, not getting discouraged over the weak 3-year halftime break, was well rewarded. The S&P over the next decade gained an impressive 400%. It was not a straight move up, a bear market in 1998, caused some short-term stress, but investors with practicing patience and discipline were rewarded with a final bull move of 60%.

Secular Bull 2011-?

With a wave of relief, a new secular bull began in October 2011, following a disastrous 12year secular bear from 2000-2011, with multiple bear market declines of over 50%. The new secular bull ran for 8+ years, double-digit annual returns for the S&P 500 and a total gain of 208%.

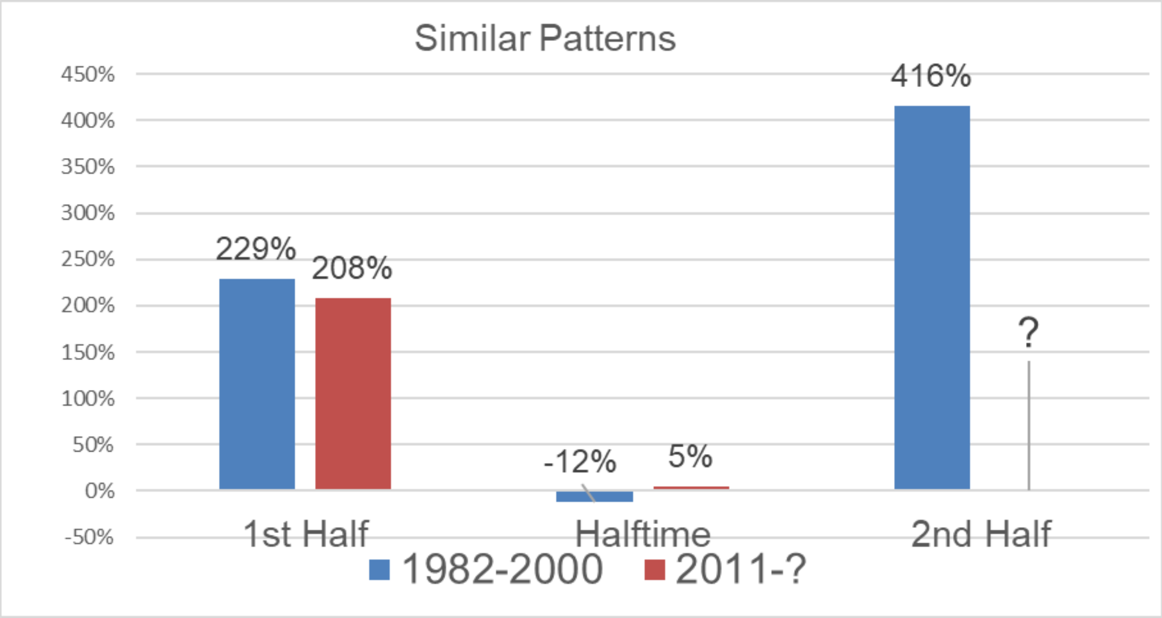


Source: Stock Trader's Almanac 2023

But like the preceding secular bulls, the current secular bull has taken a 2.7-year halftime. After a peak on 2/29/20, the U.S. and the globe were hit with a pandemic which put all the markets into a steep dive and a global recession. Stocks fell over 33% but then went on to recover in 2020-21. Stocks reached a new high, but that recovery was cut short by a burst in inflation to highs not seen in over 40 years, followed by the Federal Reserve sharply raising interest rates, coupled with rising fears of potential recession sent stocks into another bear market in 2022. Halftime returns were able to hang on to a slim annualized gain of only 2%.

“History never repeats, but it often rhymes.” Mark Twain

The good news is that the halftime show of subpar returns may be well behind us or if another small dip occurs this fall if the economy does enter a recession, either way, the market is ready to embark on a new 2nd half. Just how big it could be is unknown.



Source: Stock Trader’s Almanac 2023 and FastTrack

The 2011-? Secular bull has a similar pattern to the last secular bull, 1982-2000. 1st half results were in the low 200% versus 350% in the 1949-68 secular bull. Halftime results were also similar, low to negative returns over three years. So, will the 2nd half of the current secular bull be more of a mirror of 1982-2000, where the biggest returns were saved for the 2nd half?

We do not have that answer. However, if history at least rhymes, the next decade could be one of solid returns where investors need to be invested in strategies that can best exploit the potential gains.

Will this be the case? No one knows for sure and only time will tell. DWM, for one, will continue to rely upon its tactical tools to stay in line with the market's fluctuations. Always remember: the key to investment success is to stay disciplined and flexible in an ever-changing market environment. The moment you start to second-guess your decisions is usually when you shouldn't.

As we go to press, the overall Market Environment Indicator (MEI) remains bullish, along with the Individual Fund Signals (IFS). We will continue to monitor these indicators and make the necessary adjustments. For an individual performance review, please call 303-471-5189. Please note that, in the following pages, the performance charts for certain asset classes showing year-to-date returns, are for illustration purposes only and do not reflect our Relative Strength Analysis (RSA) system.

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Sources: Style box data = i-Shares Russell Indexes. Source: Investors FastTrack.Sector data = DJ US Sector Indexes via I-Shares. Source: Investors FastTrack. International data = i-Shares for Emerging Markets, Europe, pan, S&P 500 Index for U.S.A. Source: Investors FastTrack.
Bond data = various bond exchange traded funds (ETF). Source: Investors FastTrack.