Capital Management Inc.

She Suffered Through The Worst Stock Markets in 75 Years – And Still Gained

Saturday's With Jim

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3/18/17

Dear Friends,

I first met Sally (actual name withheld) in the early 80's when I directed the administration of a Reagan era emergency food and shelter program for the United Way in Los Angeles. She became one of my first clients when I formed the predecessor to Gaia in 1985. We did employee benefits for her social service agency and, in the mid 90's, she began an IRA under our management. What follows is a look at her account's results from 2000, when she was 65, to 2017, now age 82. Sally's account returns are typical of all of the accounts in her group of income clients.

A Look At Her Account Performance By Market Cycle

We will break down Sally's history through the ups and downs of market cycles through February 28, 2017. Note that we are starting at the high of the stock market in 2000, continuing through two horrendous bear markets (severely down and seemingly out times), ending after eight years of recovery. We might all be pleasantly surprised that Sally's account gained 4.3% a year from the 2000 market high through February 28, 2017 – surviving two bear markets and still gaining a respectable amount. The 4.3% average annual gain is even more pleasing because 13 years ago Sally began withdrawing money from her account when she turned 70 ½ (required by the IRS). Her withdrawals began at 3.6% in the first year and have risen to above 5% in the current year. And still her account gained.

Suppose Sally had started her account with us in October 2002, the low of the 2000-2002 bear market. Her account would have gained an average of 10.3% a year, overcoming the annual withdrawals by a long shot.

Sally's Numbers, With Explanation

Takeaways from Sally's account as shown in the table below:

- Though white knuckled at times, Sally prospered by holding on, selling nothing
- Stock market valuation when making large investments is critical to future performance
- We did no better than the market during downturns
- We recognized bear market lows quickly and positioned for growth

- Performance post 2011 slowed down due to making the account a bit more conservative

Sally's Account Performance By Market Cycle: 2000-2017			
	Cumulative % Gain	**$ Balance**	**% Gain from Prior Cycle**
Beginning Cycle 5/31/00 :	0%	$100,000	0%
Cycle Low 9/30/02 :	-49.12%	$50,880	-49.12%
Cycle High 10/31/07 :	21.56%	$121,560	138.92%
Cycle Low 2/28/09 :	-24.33%	$75,670	-37.75%
Cycle High 4/30/2011:	66.01%	$166,010	119.39%
Cycle Low 9/30/11 :	31.70%	$131,700	-20.67%
Current Level to 2/28/17 :	101.83%	$201,830	53.25%

Sally is still working, giving adolescent kids alternatives to gangs. Her account shows both the volatility and the power of a mostly common stock portfolio, even at an advanced age. Even though it had withdrawals, the account has continued to grow over the years. Even with a nasty bear market and an all-out financial crisis, which could have had results equal to those of the great depression, Sally's account has continued to grow. But Sally could have left disgruntled and poorer for her investing effort if she had truncated her experience with us. It took one gigantic leap of faith for Sally not to pull the plug. If Sally had retired around the year 2000, depending on her IRA for at least half of her income, she might have reacted with caution and fear. Will we likely stay mostly fully invested in stocks for everyone during the next bear market? That is doubtful, but the lesson is plain for all of us to see: Stocks are powerful wealth generators if kept for long periods of time, even with modest withdrawals. Next week we will look at Sally's 2000-2017 investment experience through the lens of her dividend income. We will likely find far less volatility.

Thanks for reading today. We really enjoy our work with you.