QUARTERLY COMMENTARY
Notes from the NewSquare Community

NEWSQUARE CAPITAL

2nd Quarter • 2019

Full Market Cycle Returns: The Best Way to Achieve Your Goals

The typical marketing brochure from an investment manager cites performance over the usual timeframes: one, three, and five years. Quarterly reports often detail 90-day results. Pull up market data online, and you'll usually get just that day's ups and downs. You can click your way to a month, year-to-date, or even multiple years, but how often do you find performance data for a full market cycle? Almost never. That's a problem, because how an investment behaves over a full market cycle is the most important way to measure it.

Full market cycles—generally defined as the period from one stock market peak to another, including a price decline of at least 20% and a rebound that establishes a new, higher peak—typically last from five to 20 years. As Manning & Napier point out here, full cycles include a bear market, a recovery, and a bull market—and an endless variety of economic and market conditions—which provide a true measure of a manager or a process. Some will prove their worth when the market's up. Others will add value in downturns. If you've found a worthwhile manager and process, you should be rewarded over a full market cycle.

> *"Looking back in time, full market cycles have spanned as little as five years to as long as 20 years."*
>
> —Manning & Napier Advisors, LLC, 2014

Most investors fall short of market returns, in part because they make decisions based on the short term. On average, they stay invested in a fund or process for about four years. They may change course after a period of underperformance or based on a stellar one-year return from another manager.

At NewSquare Capital, we believe that four years is not enough time to measure investment performance. Wealth is built over the long term, and not in 90-day periods, or even over four years. Many of our portfolios are designed to aim for full-cycle performance by maximizing opportunity while mitigating risk. To us, the full cycle is more important than any one of its parts. We recommend that you take the time to understand your manager's process, what it's designed to do, and how it matches your time horizon and risk tolerance. Watch how it works across the different stages of a market cycle, and give it time to pay off.

Not enough time

As the graphs from DALBAR, a financial services market research firm, show, in most of the past 20 years, investors in both equity and fixed income funds have stayed invested for less than 4 years. The average over that time period is just 3.6 years for equity funds and even less, just 3.1 years, for fixed income.[1]

That's not long enough, because historically, volatility is higher over shorter time periods. Investors tend to be rewarded for staying the course.

RBC Wealth Management, 2018 [1]

Fig. 1: **Retention Rates: Equity Funds**

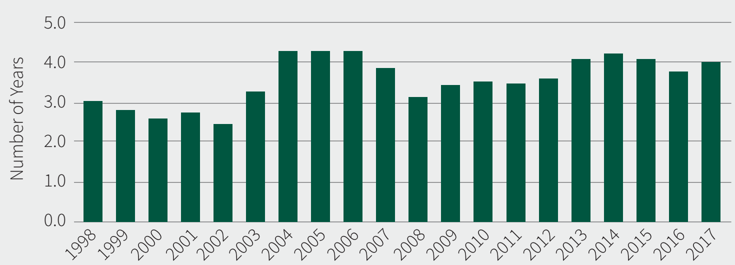
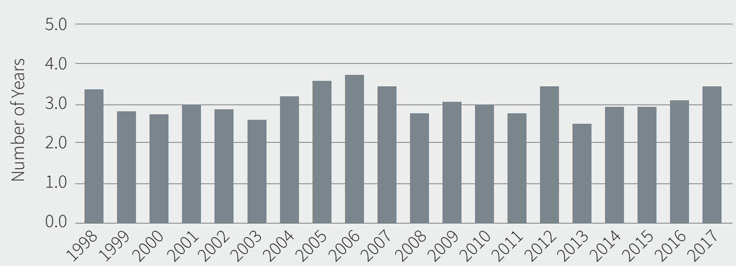


Fig. 2: **Retention Rates: Fixed Income Funds**



Source: DALBAR, Inc., Quantitative Analysis of Investor Behavior, 2018

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Market Review

The ups and downs of equities during this year's second quarter—strength in April, a downdraft in May, and a bounce-back in June—only underscore the importance of not allowing short-term noise to get in the way of your long-term plan.

In 2019, we've seen the strongest January for stocks in more than 30 years and a continuation of the longest economic expansion in U.S. history. We've also seen an economic slowdown in Europe, a period when long-term treasury rates fell below short-term rates, and any number of short-term shifts in sentiment around tariffs, trade tensions, and the U.S. Federal Reserve's (Fed's) next move.

Meanwhile, the equity bull market rolled on, now past its 10th birthday, driven most recently by large-cap stocks. There was some shifting away from risk toward more defensive sectors of the market, but through the halfway point of 2019, growth stocks continued to outperform value.

From a fixed income perspective, expectations that the Fed will cut its benchmark interest rates in 2019 drove market rates down toward the end of the quarter. In March 2019, the long-term treasury rates fell below short-term rates, raising concerns about further disruption in the fixed income market. The Fed held rates steady in June, but hinted of potential cuts if the economic outlook weakens.

Portfolio Discussion

During the second quarter of 2019, we made no drastic changes to our portfolios. We did complete some trades and repositioning, but our broad asset allocation remained the same.