Learning from history: Bulls, bears and boomers

While history clearly shows that markets move in cycles, many of today's investors – baby boomers in particular – view bull markets as the norm and tend to chase returns at the expense of risk management. Why? Because before the 2000s, they had never personally experienced significant losses.

Boomers first investing experience began during a bull market

In general, boomers began investing seriously during the bull market lasting from 1982 to 1999, when the US entered an extended period of stable growth with few recessions. Their biggest fear wasn't losing money; it was missing out on gains. Many investors loaded up on high-flying technology and telecommunications stocks in the 1990s. And then the tech bubble burst.

1982–1999: Bull markets shaped boomers' unrealistic perception of investment risk

- Nine years of consecutive positive returns[1]
- 10 years of returns of 20% or more[1]
- Five years of returns of 25% or more[1]

For illustrative purposes only

When the market rebounded from the tech bubble burst, investors looked for growth opportunities beyond technology: international stocks, emerging market stocks and private equity. But the market plunged again as the US entered the Great Recession. The damage wasn't concentrated in a few sectors – virtually all asset classes tumbled simultaneously.

2000-2009: The market bears down and boomers experience the reality of investment risk

- Three consecutive years of negative returns[2]
- One year of negative returns over 31%[2]
- 19 consecutive months of negative returns[2]

For illustrative purposes only

Investors who thought they were diversified were left once again to pick up the pieces of their portfolios. What went wrong?

Risk revisited: Diversifying by risk sources

Examining longer-term performance trends makes clear the flaw that undermined boomer investors. In pursuit of returns, they avoided assets that offer lower growth potential than that of equities – such as long-term government bonds and cash. However, these assets have historically fared better during recessions. In essence, they diversified their sources of return but didn't diversify according to risk.

During different economic environments, different asset classes outperformed

Different asset classes have historically offered the highest returns during different environments. Broadly speaking, investors may face three major economic environments – deflation, inflation and low inflationary growth – and different asset classes have historically led the way during each.

Bonds

Have historically outperformed in deflationary environments.

Commodities

Have led the way during times of inflation.

Stocks

Have taken the lead in low-inflationary growth environments.

Sources: Morningstar, Bloomberg L.P., Invesco (commodities). For illustrative purposes only. Commodities are generally volatile and may not suitable for all investors. *Past performance is not a guarantee of comparable future results.*

Talk to your financial professional

You can meet the challenge of effective risk management during market cycles by diversifying your portfolio to weather the challenges of different market environments. Talk to your financial professional about constructing a portfolio that helps you mitigate unacceptable risks while pursuing returns to potentially achieve your financial goals.

1 Source: Copyright 2003-2018, Crestmont Research, Crestmontresearch.com. Results are from the Dow Jones Industrial Average. The Dow Jones Industrial Average is a price-weighted index of the 30 largest, most widely held stocks traded on the New York Stock Exchange. *Past performance is not a guarantee of comparable future results.*

2 Source: Invesco. Results are from the Dow Jones Industrial Average.