Brood X and Reflections on Retirement Investing

The last time we heard the mighty whir of cicadas was in 2004. At the time Peyton Manning was still the quarterback of the Colts, the Big East Conference still had teams primarily from the east coast, and George W. Bush was still the President. A lot can change in 17 years and it inevitably did. If we think about 2004, the S&P 500 started the year at 1,132.52. The markets were still recovering from the steep sell off that occurred after 9/11 and investor confidence was shaky at best. Brood X was just establishing their planned return in 2021 and many would not make it.

Development, construction, natural disasters, and children digging holes would inevitably stop the path of many a cicada before their time. In 2004, a small search engine called Google decided that they should have an IPO and many of us were using competitors Yahoo or Excite (Ask Jeeves anyone?). We didn't think a thing like a global pandemic was possible and people could borrow money to purchase a home (or 2nd, 3rd or 4th) through a simple "stated income" loan.

As Brood X continued their development safely under the ground (except those construction spaces), in late 2007 the global financial crisis ripped through our investments and slashed asset balances, incomes, homes, and careers. Clients asked if all US companies could go to zero and if they were better off not saving in a company retirement plan and just buying gold. The economy did rebound although it took many years and lots of government stimulus. At the beginning of 2011, the S&P 500 was at 1282.62 and the lost decade was behind us. For those retirement plan investors with globally diversified portfolios, they 00's had been productive yet difficult.

For investors who continually contributed to their plans and stomached the pains of the dot.com bust, 9/11 and the global financial crisis, they were well on their way to a successful retirement. Innovations in retirement plan design such as auto-enrollment, auto-escalation and target date funds were helping to minimize the buy high, sell low mentality of retirement investors and creating a set it and forget it approach. When we coupled these innovations with steady market increases, retirement investors aided by recency bias thought that things could only go up.

2013 saw dizzying returns and the fun continued on for most of the remaining decade. A bad year was suddenly a year of modest or slightly negative returns. 2019 was a very strong year even though in August we were discussing the predictive nature of negative yield curves. The bounce back was swift and investors were rewarded for patience yet again. Later in the year we were starting to hear about something called COVID-19 in Asia but it just seemed to be disrupting supplies of some goods produced in China.

At home, nervous investors were getting ready for an election year and all of the noise & turmoil that brings. In mid-February 2020 the news of COVID-19 reaching and expanding domestically rocked markets and investors started to see significant sell-offs occur over the coming weeks. Market gains from January & February had been wiped out and Brood X was still over a year from surfacing.

With hindsight and luck, we didn't sell our investments and investors were rewarded handsomely in 2020 with strong returns. On the heels of these strong returns and a Presidential election that took almost a week to call, investors revisited their allocations and thought long and hard about what a change in administration could mean. Republicans wanted to sell, Democrats wanted to buy, and investors wanted to ignore them both. As investors prepared for a new occupant at 1600 Pennsylvania Avenue, Brood X was preparing for warm weather and their eventual arrival.

2021 has continued with strong stock market gains all with the backdrop of a Winter spike in COVID cases, disruptions to businesses both big and small, record stimulus, rising inflation, domestic discord, mass vaccinations, global COVID variants continuing, virtual school, social distancing, cicada induced flight delays and deafening whirs as each male cicada seeks out a mate. The past 17 years haven't been easy for an investor but frankly they never are. Markets go up and markets go down. Today's crisis is potentially tomorrow's opportunity for some businesses (ex. Zoom, Amazon).

On June 10th, 2021 the S&P 500 was at 4240.44. Seventeen years ago it was at 1132.52. If you are in your late 30's and started investing for retirement in 2004, you have likely experienced dramatic returns over that time frame. Your money has grown at a pace faster than inflation in a globally diversified portfolio but your account hasn't always gone up. Companies that we loved in 2004 are no longer with us but new ones have arrived to innovate and take their place. The Blockbuster Video of yesteryear led to the Netflix of today. It is likely that the same retirement investor in their late 30's today will see an even crazier next 17 years while they continue to accumulate assets for retirement and await the arrival of Brood X in 2038.

Until 2038, let us focus on the truly long term and not fixate on the day to day, month to month, and quarter to quarter ebb and flow that can devastate portfolios like cicadas taking to a newly planted tree. As investors we have to remember that it is the long term journey that will lead to us being able to fly and spread our wings just like our friends the cicadas.