Unbounded Wealth: John's Take 11-7-24

The Coming Lost Decade and What to Do About it!

Unless you've been sound asleep and living under a rock, even a casual observer would know that the stock market has been on fire for much of the past 15 years.

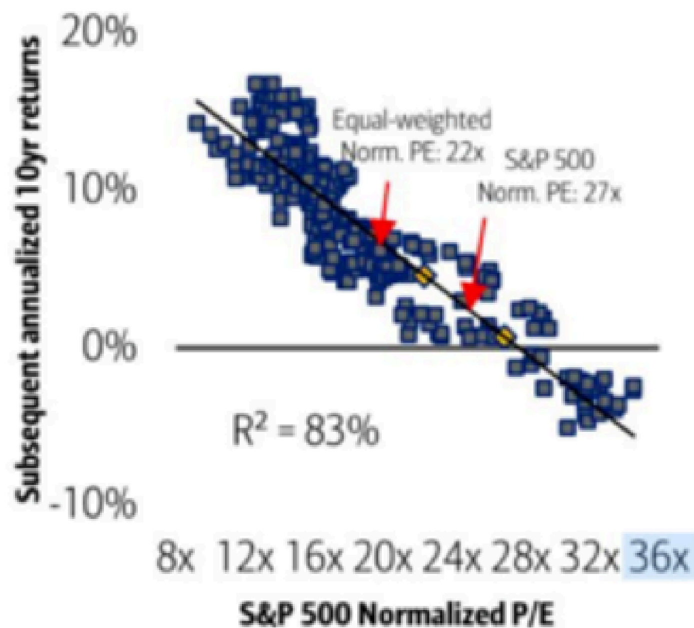
Specifically, large U.S. stocks have been one of the best-performing markets one can invest in.

Fortunately for most of us, the S&P 500 is one of our larger holdings.

But, while the past may be prologue, history doesn't often repeat itself. A decade of fat returns can lead to complacency, and then when you least expect it, whack…a nasty bear market finds you down 50% or more.

Bank of America recently published research that suggests future stock market returns over the next ten years are likely to be *much less* than what we have come to expect based on the last decade and a half.

Take a look at this chart on the next page:



The chart's headline says it all. Today's valuation implies 1-2% returns for the S&P 500 over the next decade.

As you may know, the S&P 500 is market-cap-weighted, so the biggest companies dominate the index. As a result, those big companies also dictate the index's returns.

Meanwhile, Bank of America suggests that, based on current valuations, the equal-weighted S&P 500 will return 4-5% per year over the next decade. That's a huge difference but well off from the 10%+ returns we have become accustomed to.

You can buy the equal-weighted S&P 500 through the exchange-traded fund RSP. Historically, equal-weighted indexes have outperformed by about 0.5% annually over a *long* period of time.

If your inbox is bombarded with investment newsletter marketing, then 0.5% might not sound like much. However, over 20-30 years, it's *huge*. Just do the simple compounding yourself and see the difference.

Based on the valuation chart above, my interpretation is that forward returns for the S&P 500 will likely be low. By traditional measures, the market is overvalued. That said, the trend is up. And we must ride the trend as long as we can. In the meantime, we must be aware that the farther along we are in the trend, the more risks may present themselves.

What can you do about it?

First, you could compare the S&P 500 to the equal-weight S&P 500 and own the one with the best short-term trends, say, three-month momentum.

This strategy dramatically outperforms buy-and-hold. You can also ignore Wall Street research. Lastly, it's so simple that even a 3rd grader with a crayon and a blank piece of paper can do it.

In addition to higher returns (1,099% vs. 872%), market volatility is similar.

Would I invest in something like this?

No, because you're still subject to a 55-60% drawdown, and my own strategies have much better risk/reward metrics.

However, it is worth noting whether the market-cap-weighted or equal-weighted S&P 500 is outperforming. Knowing what's outperforming can help with asset allocation decisions elsewhere. So I pay attention to the relationship above.

Other better plays are some I've discussed in this space. I’ve posted charts and analysis outlining these opportunities.

Small stocks offer opportunities compared to large stocks. The spread between the two has been significant, and that spread should close.

Value stocks have lagged growth stocks. The dominant companies in the S&P 500 are growth-oriented. Bank of America's forward valuation analysis suggests that they think that gap will close.

Foreign stocks have underperformed U.S. stocks. That gap should close. Specifically, emerging market value stocks represent one of the best relative value opportunities in the market.

If Bank of America is correct and forward returns are 1-2% over the next decade, there may be a smoother ride. It means a very nasty bear market is a real possibility. Do you want to lose 50% to make 1% a year?

Me either.

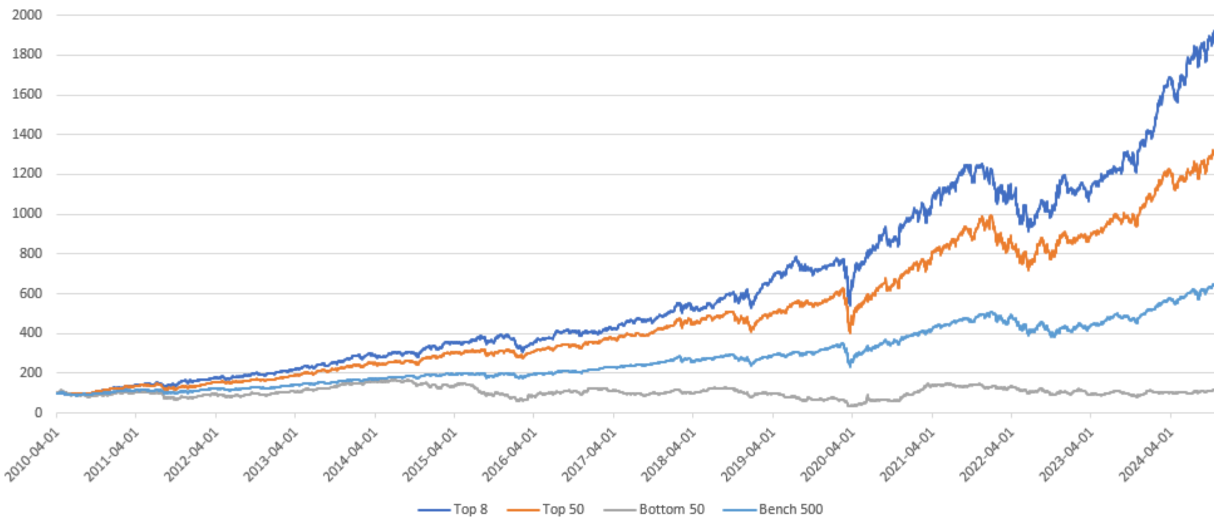
Equip yourself with unique tools and take charge of your financial health. Wall Street is **not** here to help you.

I just celebrated my 49th birthday. I much prefer to give gifts rather than receive them, so I'd like to offer a complimentary copy of my full Forensic Accounting Stock Tracker (FAST) model as a gift in recognition of my birthday.

FAST cuts through all the phony B.S. in financial statements and quickly gives you a score to assess how many shenanigans management is pulling to “beat The Street.”

I started my company in 2010, and here are the results for FAST since then. Quite simply, FAST has spanked the market. Look at the chart below. The S&P 500 is up about 600%, and the top FAST stocks are up about 1,900%.

No hype. Just returns.



More importantly, if you own stock in a low-ranked company, it can *destroy* your portfolio returns. The bottom stocks are dead.

Are you holding a low-ranked stock?

There's only one way to find out. If you'd like to know more, feel free to email me at jd@unboundedwealth.com

I answer all emails (I keep saying this because folks are still surprised when I respond), and I welcome questions, comments, and content ideas. I do not offer personalized investment advice.

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