

# Investment Insights

## Investing at Stock Market Highs

February 2022

**All data, projections and opinions are as of the date of this report and subject to change.**

The phrase “all-time highs” can understandably create some discomfort for investors who may have cash to put to work. This often leads to waiting for a perfect entry point, a timing strategy that’s historically proven ineffective. However, even though past performance does not guarantee future performance, since 1871, buying the market when it closed the year at an all-time high offered a better-than-average return (15% vs. 10% for other years).<sup>1</sup> In our view, over the medium term, Equities have further upside based on improving key fundamentals such as economic activity, corporate earnings, inflation, monetary policy, level of interest rates and policy outlook. The accompanying secular bull market will undoubtedly experience cyclical and sentiment-driven pullbacks along the way, creating opportunity for long-term investors. To successfully navigate this environment, the following portfolio considerations should be useful:

- To avoid costly behavioral mistakes, adhere to a disciplined investment process that provides an optimal mix of diversified assets. This raises the probability of achieving one’s long-term financial goals and cash flow needs. Systematic and opportunistic rebalancing will be an important feature of this financial plan.
- If one is underinvested in Equities relative to one’s long-term strategy or has cash to put to work, one should consider getting invested using a dollar-cost-averaging investing strategy. Historically, staying on the sidelines or pulling back from the market due to volatility has negatively affected performance. In the 2010s, investors who had missed the 10 best days of returns would have realized only 95% gains vs. 190% for the full decade.<sup>2</sup>
- If one is already invested in an appropriate long-term strategy, there may not be a need to buy more Equities at these levels. However, given lower income and capital appreciation opportunities in Fixed Income, a legitimate consideration may be that investors have to assume more risk and maintain a higher allocation to Equities than usual in seeking to achieve their total return objectives. Importantly, a financial plan should optimize total return expectations, risk tolerance, liquidity needs and the investment time horizon.
- On a tactical basis, maintain a preference for Equities over bonds. New money can be utilized to build back exposures in areas where there are gaps in the portfolio. International Equities, Small-caps and Value are potential areas where investors could be underinvested, given their long-term underperformance.
- Incorporate long-term thematic exposure such as artificial intelligence, robotics, factory automation, 5G, healthcare infrastructure and technology, climate change, cloud computing and big data.

<sup>1</sup> BofA Global Research, “Quick RIC: 2021 Portfolio Reviews: Everything You Need to Know,” January 12, 2021.

<sup>2</sup> BofA Global Research; Chief Investment Office. Data as December 31, 2021.

AUTHORED BY:

[Chief Investment Office](#)

**Data as of 1/31/2022 and subject to change.**

### S&P 500 Returns Over The Decades.

Decade	Price return	Excluding Best 10 Days per Decade
1930	-42%	-79%
1940	35%	-14%
1950	257%	167%
1960	54%	14%
1970	18%	-20%
1980	228%	109%
1990	316%	186%
2000	-24%	-62%
2010	190%	95%
2020 – 2021	50%	-16%
1930 – 2021	22,120%	60%

Source: BofA Global Research; Chief Investment Office. Data as of December 31, 2021. **Past performance is no guarantee of future results. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Please see glossary and index definitions at the end of this report.**

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# Glossary of Terms

**Price Return** is the rate of return on an investment portfolio, where the return measure takes into account only the capital appreciation of the portfolio, while the income generated by the assets in the portfolio, in the form of interest and dividends, is ignored.

## Index Definitions

**Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Indexes are all based in dollars.**

**S&P 500 Index** includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market.

## Important Disclosures

**Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results.**

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All recommendations must be considered in the context of an individual investor's goals, time horizon, liquidity needs and risk tolerance. Not all recommendations will be in the best interest of all investors.

Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

Keep in mind that dollar cost averaging cannot guarantee a profit or prevent a loss. Since such an investment plan involves continual investment in securities regardless of fluctuating price levels, you should consider your willingness to continue purchasing during periods of high or low price levels.

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