SWAN GLOBAL INVESTMENTS

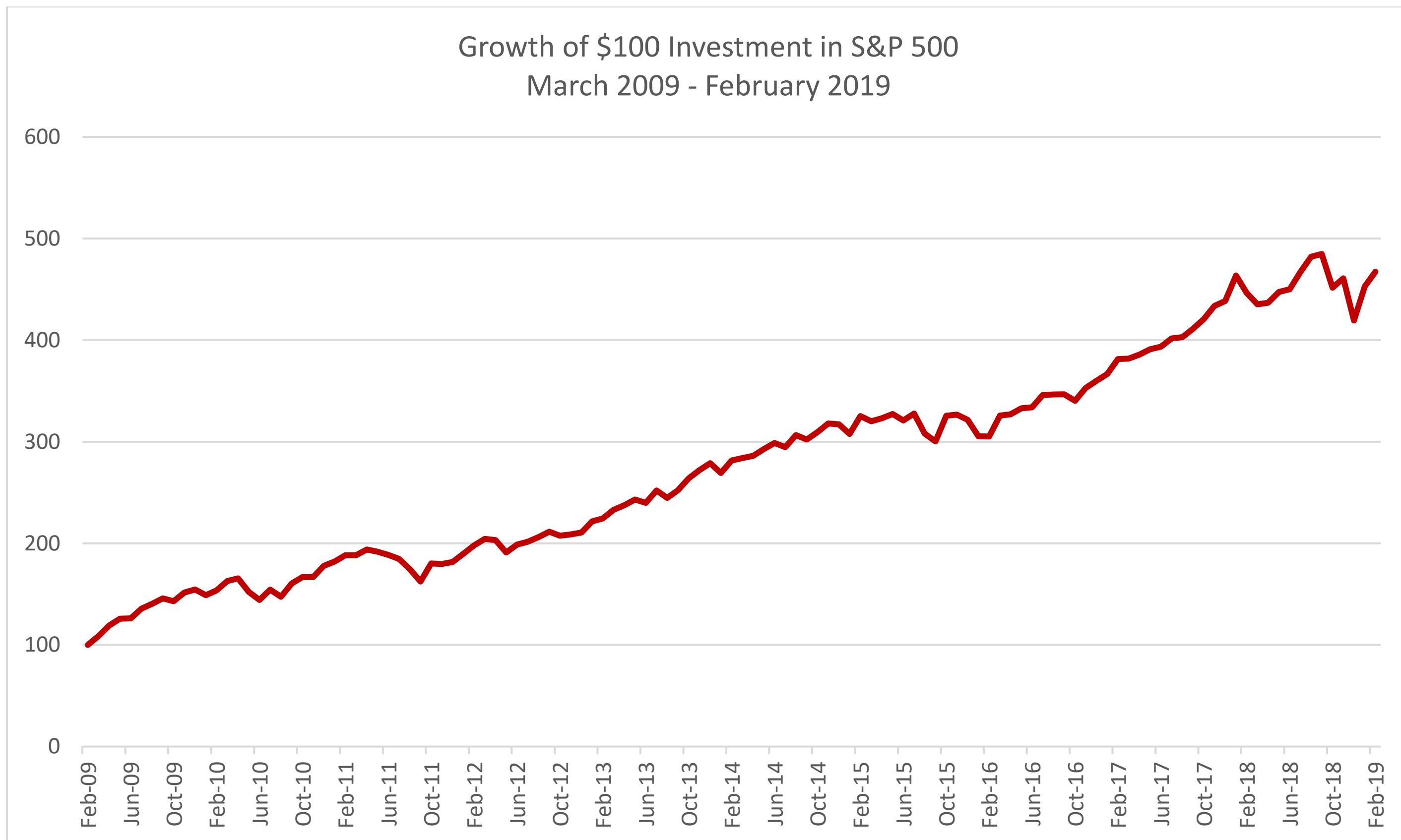
Ten Years of Bull

Contrasting Two Extreme Environments

Marc Odo, CFA®, CAIA®, CIPM®, CFP® | March 2019 | Swan Insights

March 9th marked the 10-year anniversary of the bull market following the Global Financial Crisis. The S&P 500 bottomed at 676.53 on March 9, 2009; on March 8, 2019 at the close of the market, it stood at 2,743.07.

Despite two near misses in August 2011 and December 2018, the S&P 500 has not had a market-close loss of 20% (the traditional definition of a bear market). A $100 investment in the S&P 500[1] on March 1st, 2009 would be worth $467.40 by February 28th, 2019.



Source: Swan Global Investments

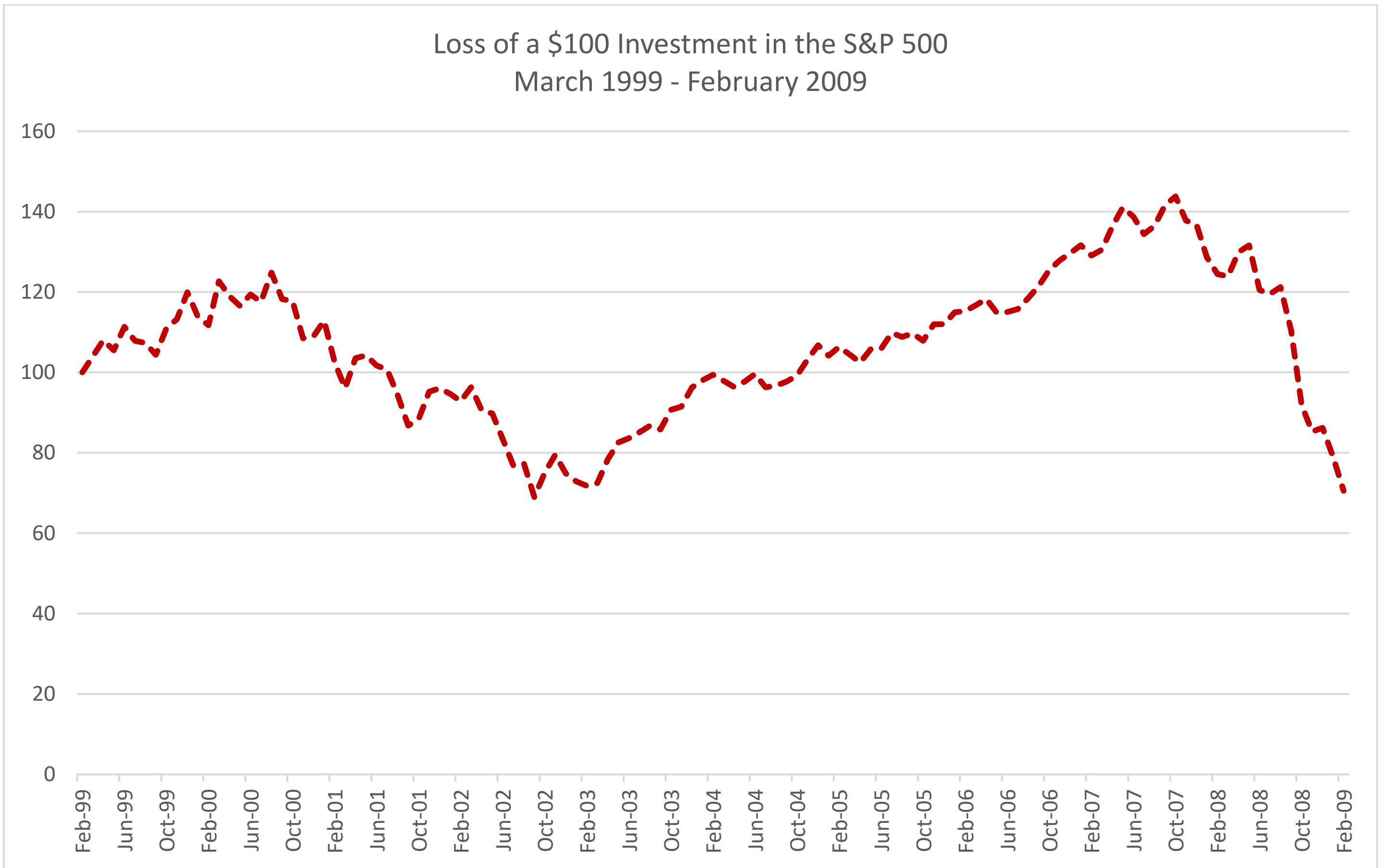
It has been a remarkable decade.

The decade before this one was also remarkable, but for all the wrong reasons.

How Lost Were You in the Previous Decade?

The ten years before March 2009 was horrid for investors. Investors had to weather not one, but two bear markets. First the Dot-Com bust of 2000-2003 erased almost 45% of the S&P 500's value over three long, torturous years. Next, the greatest calamity to hit the markets since the Great Depression cut the S&P 500 in half over a span of less than 18 months. An investment of $100 in the S&P 500 on March 1, 1999 would be worth only $70.52 by February 28th, 2008—truly a lost decade.

[1] You cannot invest directly in an index.



Source: Swan Global Investments

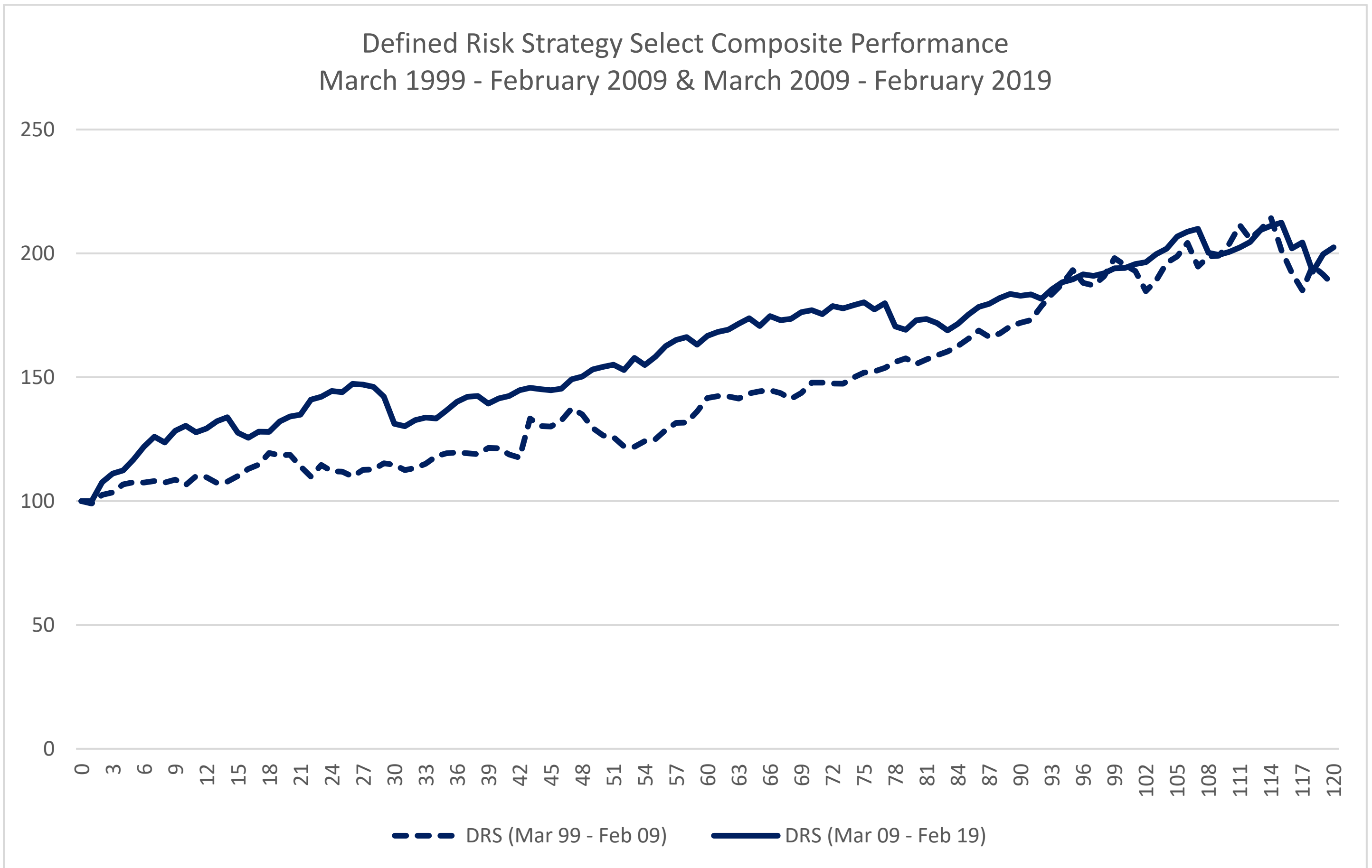
What is interesting about looking at these two decades is how unpredictable and extreme they are. Too often the markets are "feast or famine." Too much is left to chance, outside anyone's control. Many investors don't enjoy this kind of uncertainty and long for a smoother, less volatile ride.

This problem is exactly what the Defined Risk Strategy (DRS) seeks to address.

Seeking a Smoother and More Consistent Ride

Swan's Defined Risk Strategy was designed in 1997 to be an investment strategy for a complete market cycle, meaning a period that incorporates both a bull market and a bear market. The DRS seeks to avoid major losses from bear markets. The hedging component of the strategy adds the most value when markets sell off significantly. So while the strategy produced very favorable returns during the "lost decade" of March 1999 to March 2009, how has Swan's DRS fared in an environment without a bear market?

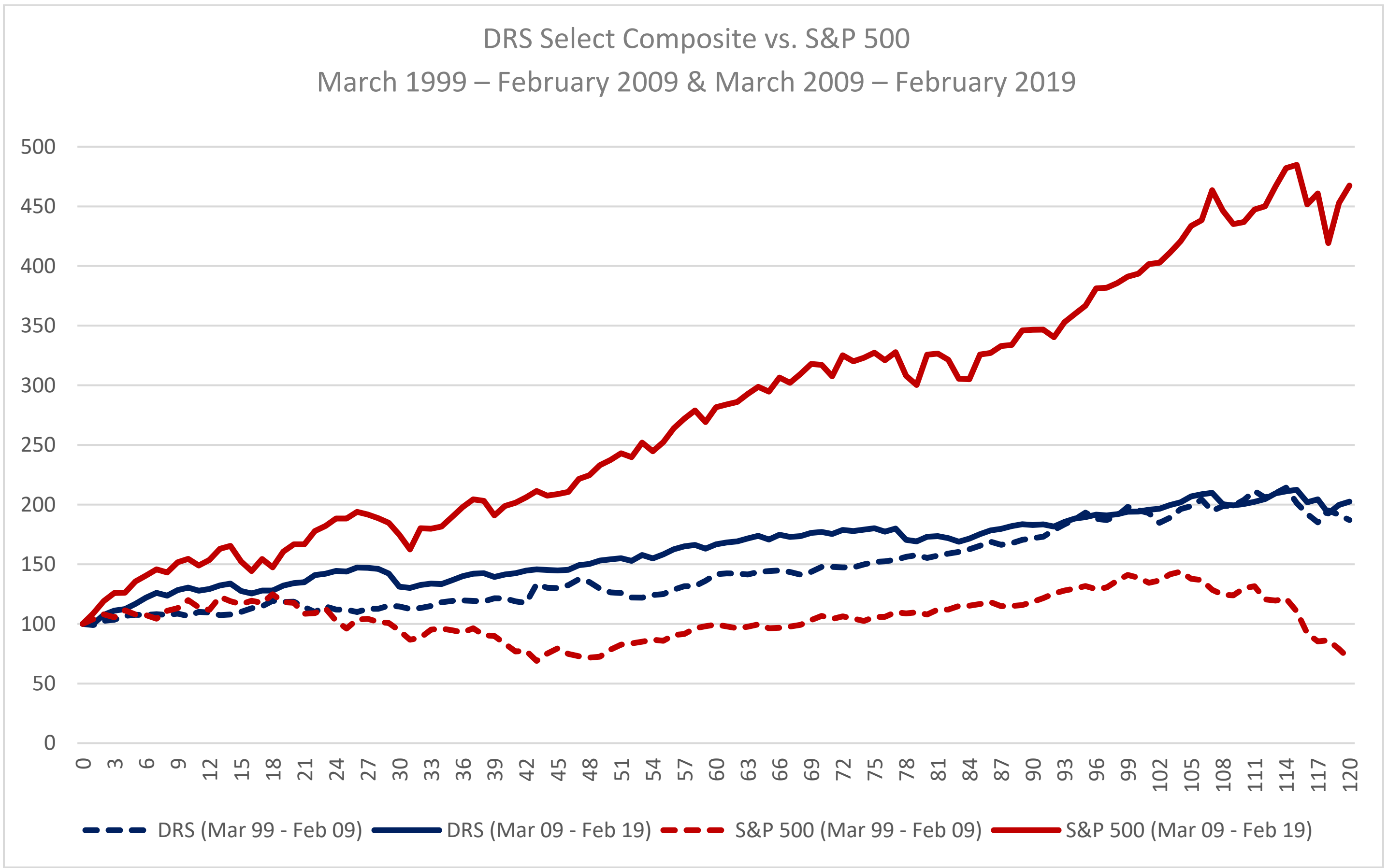
The chart below shows the ten-year performance of the DRS for both periods discussed previously. As we can see, the performance is consistent through the best of times and worst of times.



Source: Swan Global Investments. DRS returns are from the Select Composite, net of all fees. NOTE – this chart is for illustration purposes, not a guarantee of future performance. The charts and graphs contained herein should not serve as the sole determining factor for making investment decisions.

The difference in the DRS Select Composite's performance is slight. During the decade of two bear markets (i.e., March 1999 - February 2009) the DRS had an annualized return of 6.46%. During the decade of no bear markets (i.e., March 09-February 19) the DRS's annualized return was 7.32%

All of these charts illustrate the fundamental problem the DRS set out to resolve over twenty years ago. When compared to the two decades in the S&P 500, the DRS was able to provide more stability than passively riding the uncertain S&P 500 wave.



	March 1, 1999 – February 28, 2009			March 1, 2009 – February 28, 2019		
	Annualized Return	Cumulative Return	Value of $100	Annualized Return	Cumulative Return	Value of $100
DRS	6.46%	86.99%	$186.99	7.32%	102.68%	$202.68
S&P 500	-3.43%	-29.48%	$70.52	16.67%	367.39%	$467.39

Source: Swan Global Investments. The S&P 500 Index is an unmanaged index and cannot be invested into directly. Swan DRS returns are from the Select Composite, net of all fees. NOTE – this chart is for illustration purposes, not a guarantee of future performance. The charts and graphs contained herein should not serve as the sole determining factor for making investment decisions.

The DRS has demonstrated remarkable consistency with its returns. Whether it was the best decade for the markets or the worst, the DRS averaged a rolling 10-year annualized return of 7.9%.

While this isn't as exciting as riding a wild up market, it does offer the smoother, consistent ride that helps investors stay invested, especially though bear markets when investors are most likely to panic and sell.

What We Can Learn from Extreme Environments

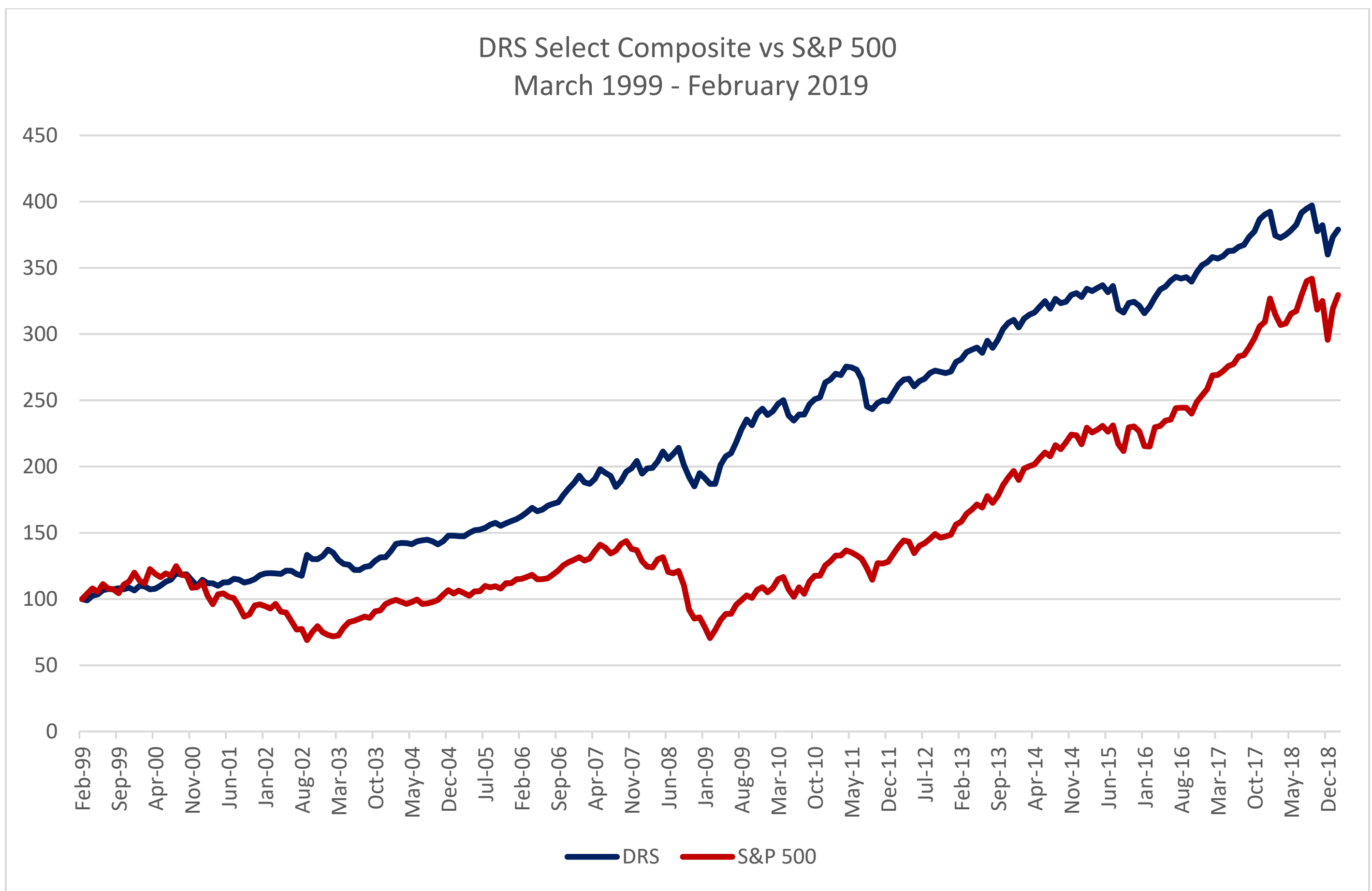
One could argue that both periods analyzed here are outliers. After all, the "lost decade" features not one but two bear markets, and moreover those two bear markets were the two worst sell-offs since World War II.

On the flip side, one could argue that the current bull market is just as unusual or unnatural. In terms of both duration and magnitude this bull market is an outlier. It has been fueled by extremely low interest rates, massive injections of liquidity, and exploding fiscal deficits around the globe. The sell-off that occurred in the fourth quarter of 2018 was driven by investors finally facing the reality that the punchbowl will eventually be taken away from this party.

While these two environments are extreme, the reality is they did happen; moreover, they happened back-to-back.

The final question we should address is: What was the combined 20-year experience for an investor through both environments?

The chart below shows the difference between passively riding the market versus actively managing to minimize risk on the downside. Over full market cycles, we can see which one wins out:



March 1, 1999 – February 28, 2019

	Annualized Return	Cumulative Return	Risk (Standard Deviation	Value of $100
DRS Select Composite	6.89%	278.99%	7.97%	$378.99
S&P 500	6.15%	229.62%	14.51%	$329.62

Source: Swan Global Investments. The S&P 500 Index is an unmanaged index and cannot be invested into directly. Swan DRS returns

are from the Select Composite, net of all fees. NOTE – this chart is for illustration purposes, not a guarantee of future performance. The charts and graphs contained herein should not serve as the sole determining factor for making investment decisions.

The above graph illustrates well Swan's belief that it is more important to minimize losses in down markets than to maximize gains in up markets. When taking both the best of times and worst of times into consideration, slow and steady wins the race.

An investor in the S&P 500 would have experienced the highest of highs and lowest of lows over the last 20 years. An investor in the DRS would have had a much quieter, smoother experience.

Which would you prefer?

About the Author

Marc Odo, CFA®, CAIA®, CIPM®, CFP®, Client Portfolio Manager, is responsible for helping clients and prospects gain a detailed understanding of Swan's Defined Risk Strategy, including how it fits into an overall investment strategy. Formerly, Marc was the Director of Research at Zephyr Associates for 11 years.

Important Notes and Disclosures:

Swan Global Investments, LLC is a SEC registered Investment Advisor that specializes in managing money using the proprietary Defined Risk Strategy ("DRS"). SEC registration does not denote any special training or qualification conferred by the SEC. Swan offers and manages the DRS for investors including individuals, institutions and other investment advisor firms. Any historical numbers, awards and recognitions presented are based on the performance of a (GIPS®) composite, Swan's DRS Select Composite, which includes non-qualified discretionary accounts invested in since inception, July 1997, and are net of fees and expenses. Swan claims compliance with the Global Investment Performance Standards (GIPS®).

All Swan products utilize the Defined Risk Strategy ("DRS"), but may vary by asset class, regulatory offering type, etc. Accordingly, all Swan DRS product offerings will have different performance results due to offering differences and comparing results among the Swan products and composites may be of limited use. All data used herein; including the statistical information, verification and performance reports are available upon request. The S&P 500 Index is a market cap weighted index of 500 widely held stocks often used as a proxy for the overall U.S. equity market. Indexes are unmanaged and have no fees or expenses. An investment cannot be made directly in an index. Swan's investments may consist of securities which vary significantly from those in the benchmark indexes listed above and performance calculation methods may not be entirely comparable. Accordingly, comparing results shown to those of such indexes may be of limited use. The adviser's dependence on its DRS process and judgments about the attractiveness, value and potential appreciation of particular ETFs and options in which the adviser invests or writes may prove to be incorrect and may not produce the desired results. There is no guarantee any investment or the DRS will meet its objectives. All investments involve the risk of potential investment losses as well as the potential for investment gains. Prior performance is not a guarantee of future results and there can be no assurance, and investors should not assume, that future performance will be comparable to past performance. All investment strategies have the potential for profit or loss. Further information is available upon request by contacting the company directly at 970-382-8901 or www.swanglobalinvestments.com. 139-SGI-031819