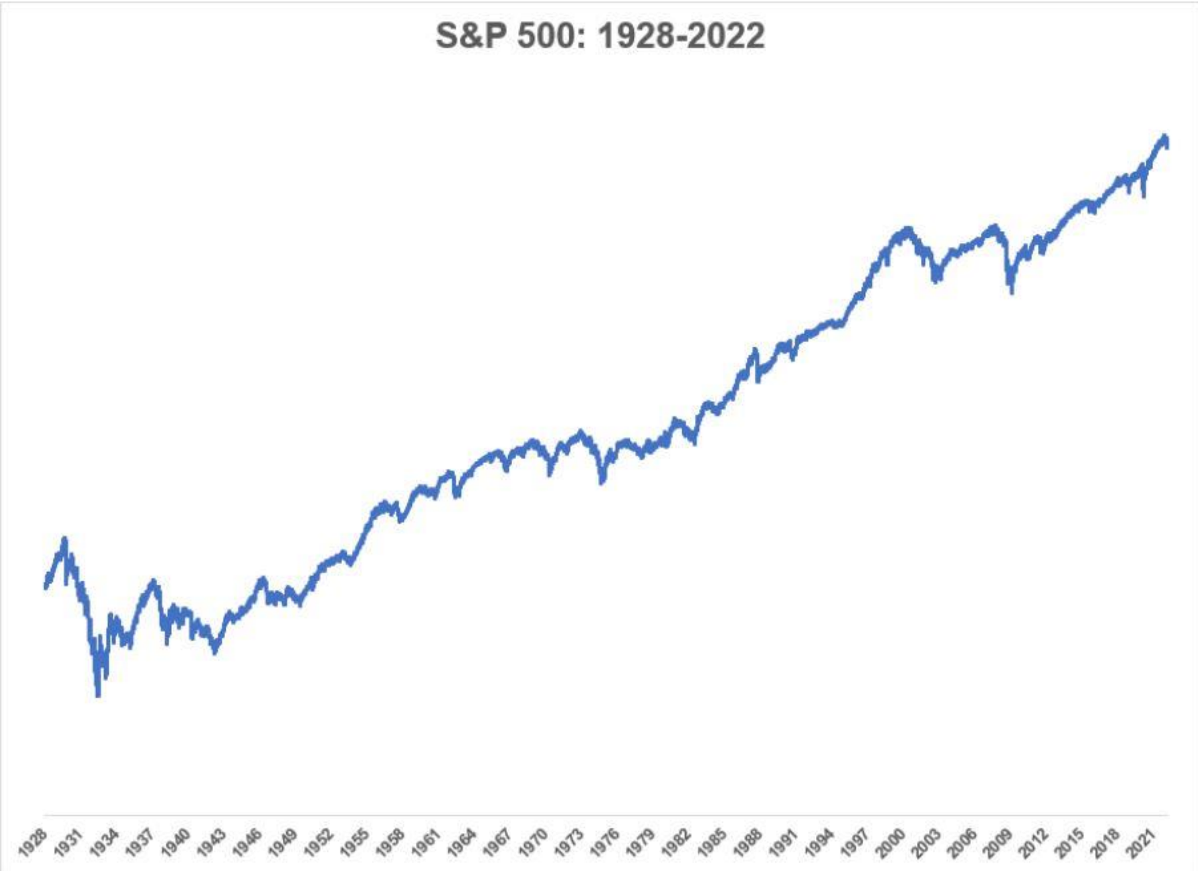
MANNING & COMPANY
Independent Financial Advisers

Why Stock Markets Go Up Over the Long-Term and How the Patient Investors Benefit

Investing is like walking upstairs with a yoyo in your hand.

The long-term trend in the stock market has historically been up and to the right:



The S&P 500 is the 500 largest companies in America

Our Director Mike LeGassick discusses how the patient investors benefit.

Since 1928, the U.S stock market (S&P 500 value) has been up 9.8% per year. I use the S&P 500 as a benchmark barometer quite simply because it represents about 65% of the global economy whereas the UK stock market is only about 5%.

Historically the market is up roughly 3 out of every 4 years. There have been no 20-year periods where the U.S stock market has been down on a nominal basis. I've gone over these kinds of stats ad nauseam over the years.

But why is this the case? Why does the stock market go up over the long-term?

I know a lot of people think the U.S Federal Reserve controls the stock market or low interest rates or it's the Illuminati that's pulling the strings.

In reality, the biggest reason the stock market goes up over time is because the economy grows, and corporations earn more money.

In 1928, earnings per share for the S&P 500 was $1.11 while corporations paid out $0.78 per share in dividends. It was impossible to do so at the time, but if you could have owned an index fund that tracks the collective performance of these companies, those would have been your per share cash flows at the time.

By the end of 2021, those numbers were $197.87 and $60.40, respectively.
This means over the past 94 years, earnings on the U.S stock market have grown at an annual rate of 6% while dividends have grown 5% per year.

Being an investor in the stock market means you get to take part in the profits and cash flows of corporations. You get to benefit from their innovation, investment, and growth.

Let’s look at the biggest stock in the market as an example.

In its fiscal year ending 2014, Apple had sales totalling more than $182 billion with a net profit of $39.5 billion. In the fiscal year ending 2021, Apple’s revenue was $386 billion, and the company produced net profits of $94.7 billion.

Sales more than doubled while the company’s profit was up 140%. Meanwhile in that same time frame, Apple paid out more than $103 billion to shareholders in the form of dividends.

And Apple is not alone in paying out dividends to shareholders.

This number has gone down in recent decades with the rise in share buybacks, but the average pay-out ratio for S&P 500 corporations since 1928 is more than 50%. This means companies have paid out more than half of their profits to shareholders in the form of cold hard cash.

The market value of the entire U.S. stock market in 1982 was $1.2 trillion. Apple alone is now worth more than $2.5 trillion. The stock market goes up over time because businesses get bigger and more profitable and earn more money over time.

If you own stocks, you earn a piece of that company, that growth.

The stock market also goes up over the long-term because sometimes it goes down in the short-term.

And if you think about it — the stock market has to go down. It wouldn’t offer such juicy returns if you didn’t dip every once and a while.

“Everyone has a plan until they get punched in the face” – Mike Tyson

Ten thousand dollars invested in the U.S stock market in 1928 would have grown to something like $66 million today. That is the staggering effect of compound interest over time for the patient investor.

But look at all the carnage along the way to get to there:

S&P 500 Drawdowns Since 1928

Peak	Trough	% Decline	# of Days
5/14/1928	6/12/1928	-10.3%	29
9/7/1929	11/13/1929	**-44.7%**	67
4/10/1930	6/1/1932	**-83.0%**	783
9/7/1932	2/27/1933	**-40.6%**	173
7/18/1933	10/21/1933	**-29.8%**	95
2/6/1934	3/14/1935	**-31.8%**	401
4/6/1936	4/29/1936	-12.8%	23
3/6/1937	3/31/1938	**-54.5%**	390
11/9/1938	4/8/1939	**-26.2%**	150
10/25/1939	6/10/1940	**-31.9%**	229
11/9/1940	4/28/1942	**-34.5%**	535
7/14/1943	11/29/1943	-13.1%	138
2/5/1946	2/26/1946	-10.1%	21
5/29/1946	10/9/1946	**-26.6%**	133
2/11/1947	5/19/1947	-14.7%	97
7/24/1947	2/14/1948	-14.1%	205
6/15/1948	6/13/1949	**-20.6%**	363
6/12/1950	7/17/1950	-14.0%	35
1/5/1953	9/14/1953	-14.8%	252
9/23/1955	10/11/1955	-10.6%	18
8/2/1956	2/12/1957	-14.8%	194
7/15/1957	10/22/1957	**-20.7%**	99
8/3/1959	9/28/1960	-13.6%	422
12/12/1961	6/26/1962	**-28.0%**	196
8/22/1962	10/23/1962	-10.5%	62
2/9/1966	10/7/1966	**-22.2%**	240
9/25/1967	3/5/1968	-10.1%	162
11/29/1968	5/26/1970	**-36.1%**	543
4/28/1971	11/23/1971	-13.9%	209
1/11/1973	10/3/1974	**-48.2%**	630
11/7/1974	12/6/1974	-13.6%	29
7/15/1975	9/16/1975	-14.1%	63
9/21/1976	3/6/1978	-19.4%	531
9/12/1978	11/14/1978	-13.6%	63
10/5/1979	11/7/1979	-10.2%	33
2/13/1980	3/27/1980	-17.1%	43
11/28/1980	8/12/1982	**-27.1%**	622
10/10/1983	7/24/1984	-14.4%	288
8/25/1987	12/4/1987	**-33.5%**	101
1/2/1990	1/30/1990	-10.2%	28
7/16/1990	10/11/1990	-19.9%	87
10/7/1997	10/27/1997	-10.8%	20
7/17/1998	8/31/1998	-19.3%	45
7/16/1999	10/15/1999	-12.1%	91
3/24/2000	10/9/2002	**-49.1%**	929
11/27/2002	3/11/2003	-14.7%	104
10/9/2007	3/9/2009	**-56.8%**	517
4/23/2010	7/2/2010	-16.0%	70
4/29/2011	10/3/2011	-19.4%	157
11/3/2015	2/11/2016	-13.3%	100
1/26/2018	2/8/2018	-10.2%	13
9/20/2018	12/24/2018	-19.8%	95
2/19/2020	3/23/2020	**-33.9%**	33
1/3/2022	???	-13.4%	???

Data: Bloomberg

The 4 most dangerous words in investing are: *This Time It's Different*.
It never is, it just feels this way sometimes.

When you invest in the stock market you don't simply get 8-10% year in and year out.
No, you get some combination of huge gains followed by some temporary, albeit painful, losses. It has to be this way, or the long-run returns wouldn't exist. Stock markets have always behaved this way.

If it was this easy surely everyone would become an investor?

If more people were properly educated to the way stock markets work, I am sure more would look to invest over the long term. The primary objective of money is to maintain its purchasing power. Providing your money is keeping pace or outstripping inflation over the long term, it means you never suffer a drop in your standard of living.

Inflation is artificially high right now because of recent global events beyond our control, but the stock market has historically proven to have trounced the cost of living/inflation over decades.

The fact that it's not always easy is one of the biggest reasons the stock market goes up over the long-term. The great companies of the world that you and I use every day of our lives, make profits far more often than not. We all buy their goods and services every day and we ultimately line their pockets and make them their profits over the years.

As investors we own a small part of thousands of these companies, but all companies and economies have tough times every now and again, but they will still be there making profits long after you and I are gone.

Managing our behaviour and reactions to all the media nonsense is the way to get these returns for the long-term view patient investor. It was, is, and always will be this way.

If your plan, timeframe, and goals have not changed then you should do absolutely nothing as this too shall pass. We have had many experienced investors wanting to invest more because they have seen this movie before and realise that markets are heavily discounted right now.

Bizarrely the stock market is the only 'market' in the world where everyone runs out of the store when everything is on sale! If your favourite food or drink was on sale or heavily discounted, you would probably fill your shopping trolley. You wouldn't hold back and wait for the price to go back up; you would buy now, but sadly, this is what many investors do.

We are always here to talk and assist you in any way we can.