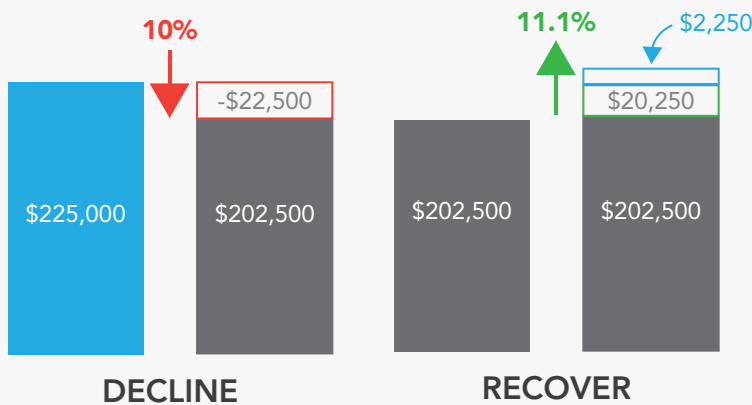


Recovering from a Loss

In golf the term **par** is used to represent the number of strokes a player should require to complete a particular hole. Those who have played golf, however, know how difficult it is to consistently live up to those expectations. As it relates to finance, getting **back to par** following a market loss is often just as difficult.

Ebbs and flows of equity markets are a natural part of investing. Some years finish positively, while others end in the red.

Although volatility is a normal part of investing, it's important to recognize the impact a market loss can have on the long-term success on your portfolio. When your portfolio experiences a loss, regardless of the severity, the math highlights the damage. The returns needed to recover get more disheartening with the fact that the market tends to drop quickly, yet climb slowly.



The Percentages

Let's first quickly brush up on the percentages. If we start with your \$225,000 portfolio and apply a 10% market **decline**, your \$225,000 is now worth \$202,500.

Now for your portfolio to **recover** and get back to par, it will take more than recovering just 10%. A portfolio of \$202,500 will require a market increase of 11.1% to reach a value of \$225,000.

10% of \$202,500 is \$20,250, ($\$202,500 + \$20,250 = \$222,750$), leaving your portfolio \$2,250 short of its original value before the decline.

Big Losses

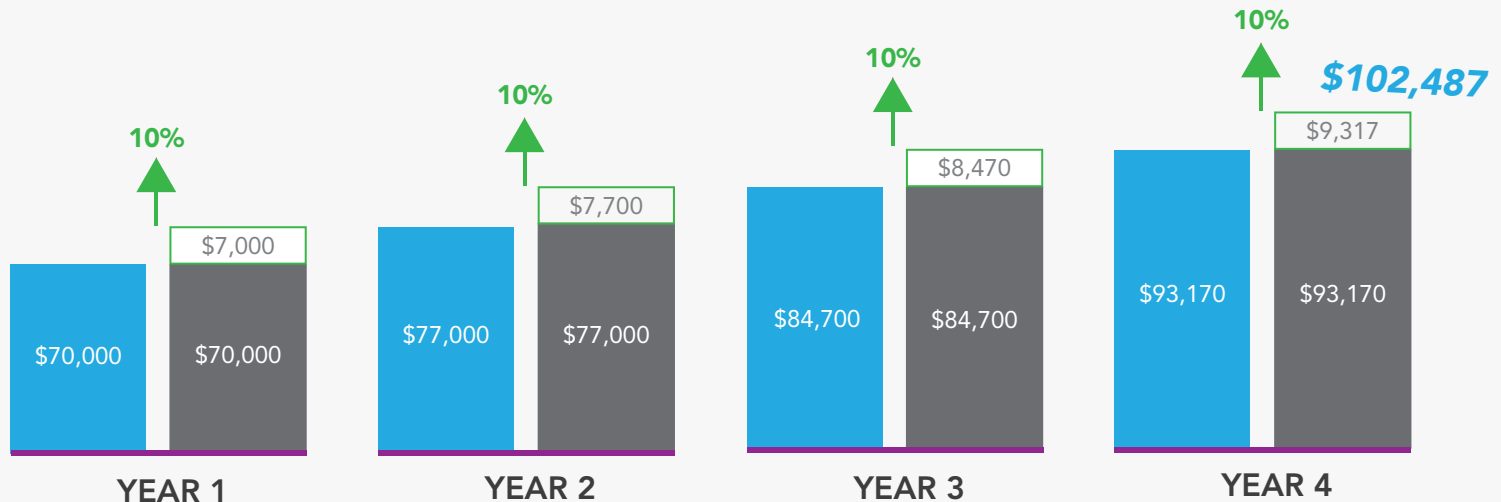
The larger the loss, the larger the break-even percentage. A sharp decline can take years to recover from. While a 10% loss requires only an 11% gain to recover, a 30% loss will require an immediate 42% gain to get back to par.

Being that the average annualized equity return over the past 30 years is 10%, a portfolio suffering from a sharp loss often takes many years to recover.¹

Compounding

It's not all bad however, as compounding can help the recovery. Consider a portfolio weathering a bear market: For the sake of simplicity, let us use \$100,000 as the value of the original portfolio. A 30% drop will leave the portfolio worth \$70,000.

To get back to par it will take four years of consistent average annual equity market returns of 10%.¹



In recovery Year 1 your portfolio will gain 10% and now be valued at \$77,000. In Year 2, add another 10%, \$84,700. Year 3, +10% gets you to \$93,170. By Year 4 of 10% annualized average returns your portfolio is finally back in positive territory (\$102,487)!

The power of compounding: Four years of 10% annualized growth = **\$102,487**

Or to recover immediately from the original market loss, it would've taken a whopping 42.8% increase to get back to par (\$100,000).²

Prepare to Prepare



sweetgumlabs.com

Yardley, PA 19067

215-488-7655

info@sweetgumlabs.com

Sources:

¹NerdWallet Compare, Inc. - May 2020.

²Compounding recovery illustration results in a cumulative return of 46.41% (\$102,487) by applying 10% annualized returns consecutively for four years. To break even immediately (\$100,000), an investor would require a gain of 42.85%.

This content should not be construed as research or comprehensive investment advice nor should it be considered an offer or solicitation to buy or sell any security or participate in any specific investment strategy. There is no guarantee that any forecasts or opinions will be realized. Sweetgum Labs, LLC