2019 was an exceptionally good year for stocks—up 29%, plus a couple more percentage points for dividends—even though the economy slowed somewhat, manufacturing appeared to be stalling out, and the S&P 500's full-year earnings slightly trailed those of 2018.

We goal-focused, planning driven investors had a great year in 2019. We did this not by forecasting the year's returns—nor by jumping into the market just in time to get them—but by patiently hewing to our long-term discipline. That was the great lesson of this genuinely great year.

Our inaugural newsletter in Q1 2016 made the case for adopting a long-term investment horizon by providing a four-decade perspective in the form of narrative, data and charts. To reinforce the critical importance of re-wiring one's brain to think of investments in terms of decades—not days, we revisit this original perspective at the beginning of each year. The data and charts have been updated with 2019 year-end values.

The major lesson to be drawn from these data is that—historically, at least—temporary stock market declines have been very different from permanent loss of capital, and that the most effective antidote to volatility has simply been the passage of time.

I t's hard to read a newspaper or watch the news and not be depressed. Bad news seems to be the order of the day, every day. Throw in the financial media's tendency to magnify every normal wiggle of the market to grandiose proportions, along with the uncertainty associated with any upcoming presidential election (especially this one), and it would be inhuman not to be worried about staying invested in common stocks during such turbulent times.

The 41 years 1975 through 2015 cover the great bulk of the investing lifetimes of most of today's investors. Moreover, since many of these people's perspective reaches only back to this morning's headlines, they typically have not the faintest notion of what has gone on in America's economy and capital markets between 1975 and today.

If they did, they probably wouldn't be worried. In this inaugural Keating Wealth Management newsletter, therefore, we thought we might take a look at some arbitrarily selected population, GDP, earnings and dividend statistics for five observation points during this period, namely the years ending in 5. Along the way, for additional perspective, we'll look at some events that alternately befell and uplifted us in each of these landmark years.

[The article below, along with the data and charts that follow, was originally published in our Q1 2016 Newsletter. The charts on p. 3 have been updated to include 2019 year-end data.]

**Perspective from the Past Four Decades: 1975-2015**

You can't build a rational long-term plan without access to long-term historical perspective about returns, volatility, and how they are connected. As humans, we are wired in such a way that it is exceedingly difficult to make the right decisions for the long term. We provide that long-term perspective on an ongoing basis, particularly when it's needed most, such as in bear markets.
Saigon falls; President Ford escapes two assassination attempts within 17 days. Margaret Thatcher becomes the first woman leader of Britain’s Conservative Party. Andrei Sakharov, the great hero of Soviet resistance, wins the Nobel Peace Prize. Saturday Night Live debuts. An American and a Soviet spacecraft link up in space; the event is memorialized on a beautiful 10-cent U.S. postage stamp.

- S&P 500 year-end close: 90.19
- S&P 500 earnings: $7.71
- S&P 500 dividend: $3.73
- Global population: 4.1 billion
- U.S. population: 216 million
- U.S. real GDP: $5.8 trillion

Gorbachev comes to power in the Soviet Union, and meets with President Reagan. The Internet domain name system is created. Windows 1.0 is published, and the first successful human heart transplant takes place. The song of the year is “We Are the World.” In the greatest marketing catastrophe since the Edsel, the Coca-Cola Company introduces New Coke. A first class U.S. postage stamp costs 22 cents.

- S&P 500: 211.28
- Earnings: $15.68
- Dividend: $8.20
- Global population: 4.9 billion
- U.S. population: 238 million
- U.S. real GDP: $8.1 trillion

The Oklahoma City bombing is the greatest domestic terrorist atrocity in American history. O.J. Simpson’s murder trial begins, and ends 10 months later in his acquittal. Israeli Prime Minister Yitzhak Rabin is assassinated. The Rock and Roll Hall of Fame and Museum opens in Cleveland. Jerry Garcia dies. A postage stamp costs 32 cents.

- S&P 500: 615.93
- Earnings: $37.70
- Dividend: $14.17
- Global population: 5.7 billion
- U.S. population: 266 million
- U.S. real GDP: $10.7 trillion

Hurricane Katrina devastates an American land mass larger than Great Britain. Saddam Hussein goes on trial for his life. July 7 becomes London’s 9/11, as coordinated attacks on the bus and subway system claim 52 lives. Pope John Paul II dies; he will be canonized only nine years later. A postage stamp costs 37 cents.

- S&P 500: 1,248.29
- Earnings: $76.45
- Dividend: $22.38
- Global population: 6.5 billion
- U.S. population: 296 million
- U.S. real GDP: $15.8 trillion

[Original 2015 narrative, not updated for 2019 events.] A radical Islamic faction, ISIS, casts the Middle East into chaos, and carries out terrorist atrocities in Paris and elsewhere. Refugees pour into Europe. The world’s leading nations reach an accord with Iran on its nuclear development program. Yogi Berra dies. A postage stamp costs 49 cents.

- S&P 500: 2,043.94
- Earnings: $118.8
- Dividend: $43.39
- Global population: 7.3
- U.S. population: 322
- U.S. real GDP\(^1\): $17.5

\(^{1}\) Except for the S&P 500 (which is the Dec. 31, 2019 closing price), all other 2019 values are estimates.

\(^{2}\) Billions of chained 2012 dollars.
Increase in the S&P 500 price since 1975

- Excluding dividends, the S&P 500 price has increased 36x since 1975, or at a compounded growth rate of 8%

Increase in the S&P 500 earnings since 1975

- Earnings have increased by 21x, or at a compounded growth rate of just over 7%

Increase in the S&P 500 dividend since 1975

- Dividends have increased 15x, or at a compounded growth rate of just above 6%—about double the rate of inflation over the same time period

Increase in global population since 1975

- Up 88%, but number living in extreme poverty reduced from 1 person in 2 to 1 person in 10

Increase in U.S. population since 1975

- Now 330 million people, the population has increased by half over this time period

Increase in U.S. real GDP since 1975

- Real GDP more than tripled, on only a 53% population increase—meaning real GDP per capita has soared

Dividends have increased 15x, or at a compounded growth rate of just above 6%—about double the rate of inflation over the same time period
This, then, is the tale of the last 45 years (1975 - 2019):

- Global population up 88%, with extreme poverty slashed from one human in two to one in 10, creating wave upon wave of new middle class consumers.
- U.S. population up by half, and gaining a new person (through net births and migration) every 14 seconds. And still almost unimaginable room to grow: population density per square mile in this country is 85, compared with almost 300 in France, 590 in Germany, 680 in the UK...and 870 in Japan. Staggering natural resources, with mineral rights vested in the landowner. A hundred years' worth of hydrocarbon energy reserves.
- Real GDP more than tripled, on only a 53% population increase—meaning real GDP per capita has soared.
- The S&P 500 rose nearly 36x, on an earnings increase in excess of 21x and a dividend boost of 15x. Far more significantly, these gains must be measured against an increase in the general level of consumer prices scarcely more than 4.5x. Surely this is the greatest accretion of real wealth by the greatest number of people in the history of the world.

What are the megatrends underpinning this spectacular economic and financial progress? Well, there are two, and of course they form a virtuous cycle. They are the spread of the free market, as liberty vanquished communism and most extreme iterations of socialism during this period, and exponential progress in information technology. (Today, a middle school child carries in his backpack a smartphone with more computing power than the state-of-the-art mainframe had in 1975.) This cycle continues apace.

Source: All population, GDP, S&P 500 price, earnings and dividend statistics through 2015 are sourced from the December 2015 edition of Nick Murray Interactive. Permission to use the data and the associated commentary from Mr. Murray’s article granted by the author to subscribers of his newsletter. The underlying sources for Mr. Murray’s 2015 data have been used to update and provide continuity for the 2019 statistics.

“The Market is Going to Fluctuate”

According to Wall Street lore, an alert young man who by happenstance once found himself in the presence of the legendary J.P. Morgan tried to seize the moment by seeking Mr. Morgan’s opinion as to the future course of the stock market. The alleged reply has become classic: “Young man, I believe the market is going to fluctuate.”

It did, it always has, and it always will.

So during periods of market volatility, what should an investor do? The answer: Keep market volatility in perspective, focus on longer time horizons, and maintain portfolio discipline. That’s it. In practice, this is exceedingly difficult to do, and that’s where Keating Wealth Management can help.