KIM: Stock market's first quarter roller-coaster ride not unusual

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Kings Island says "riders (on Banshee) will scream their way through 4,124 feet of track and seven stomach-churning inversions at speeds up to 68 mph on the world's longest steel inverted roller coaster." While Banshee riders get on and off at about the same place, many exit feeling like their insides have been rearranged.

With the S&P 500 experiencing a harrowing plunge of 11% between New Year's Day and February 11 and subsequent slingshot recovery of 13% to the end of March (finishing the quarter essentially flat), investors endured their own Banshee ride.

The first quarter provided excellent examples of some timeless investing lessons.

The stock market is inherently volatile. J.P. Morgan Asset Management calculated the average intra-year drop (peak-to-trough) in individual years from 1980-2015 was a whopping 14.2%. However, these drops ***seldom led to yearly losses***, with 27 of the 36 years ending with positive returns. You may not have realized it at the time, but if you're invested in stocks, this is what you signed-up for.

While the average annual return for U.S. stocks has been about 10% since 1926, actual yearly returns have almost never been "average." It's somewhat of a conundrum; even though the annual average is 10%, it's ***not*** safe to assume 10% is a reasonable expectation for any given year. According to Vanguard, from 1926-2014, the average annual stock return was 10.2%, but actual returns fell in the ***range of 8%-12% in only 6 of 89 years.***

Time in the market is more important than timing the market. You'd like to sell ahead of drops and buy ahead of rallies. Successful market timing requires you to get ***both*** the sell and subsequent buy correct. This is not only futile, but devastating to long-term returns.

According to Crandall, Pierce, if you invested $100 in the S&P 500 on the first day of 1991 and didn't touch it, you would have had $618.96 at the end of 2015. However, if you missed just the ***single best trading day*** in each of those 25 years, you would have had just $247.85.

Bad news can be your friend, if you let it. As Warren Buffett said in the *New York Times* at the darkest point of the global financial crisis, "bad news is an investor's best friend. It lets you buy a slice of America's future at a marked-down price."

Successful investors focus on ***process***, ***not outcome*****.** You can't tell if a short-term outcome was the result of a "good" or "bad" process. However, a sound process should lead to a good long-term outcome.

Investing is a *probabilistic* endeavor. Our process involves exploring the market's nooks and crannies to find underfollowed, unloved or misunderstood companies with common characteristics we believe increase our odds of success, over the long-haul.

We like to invest in high-quality businesses trading at a discount to our estimate of intrinsic value. We look for companies with large growth opportunities and strong, shareholder-oriented management teams. We avoid companies with excessive debt or risk obsolescence.

We stay away from what's currently "hot" and sectors we don't understand. Despite our best efforts, we've made mistakes (and will again). So, we diversify our holdings and limit the size of individual positions.

Feel relieved, but keep your seatbelt firmly fastened.
