Embracing The Suck

December 20, 2018
By Julian Klymochko

"Embracing the suck" refers to consciously accepting or appreciating a future event that is extremely unpleasant and uncomfortable but ultimately unavoidable. The phrase is often used in the military to encourage troops to have a positive attitude and manage expectations regarding the inevitable stress-causing events one comes across in military life. Athletes use it as well to endure and work through the intense physical and mental stress it takes to build one's body into peak physical shape.

No Pain No Gain

Markets can be volatile – sometimes, gut-wrenchingly so. The S&P 500 is down over -16% since its recent peak. Nearly half of global stock markets are in bear market territory (down -20% or more).

Regular stock market corrections, the occasional bear market and the rare market crash, are all par for the course when investing. Sure these things suck, but must be embraced if one is to enjoy the fruits of long-term compounding of wealth in the stock market.

"Sell Everything and Run For Your Lives" – Société Générale strategist, October 2014

info@accelerateshares.com
www.accelerateshares.com
1-855-892-0740

No matter what, there will always be a market prognosticator who will tell you how bad of an idea it is to hold stocks, how the market is going to crash and to sell everything now (they're known as "perma-bears"). They'll have impressive credentials, substantial market experience and they'll come across as extremely intelligent. Occasionally they'll be right (as a broken clock sometimes is), but they will be wrong the vast majority of the time.

The thing is, no one in the history of markets has correctly timed selling every market top and buying every market bottom. While those who sold in summer 2008 looked like geniuses a year later, they likely didn't buy back in at the bottom in 2009 (or ever), and the constant buying and selling since at the hint of any trouble has only reduced their long-term returns.

Let's not kid ourselves, it's unpleasant to see your portfolio and net worth decline markedly. You work hard for your money, and you want to see your savings go up over time. Watching your portfolio get pummeled seems like a setback – all that hard work undone.

The only way to get around these downdrafts in your portfolio is to stick with short-term government debt securities, which typically yield around 1%-2%. While everyone is different, for most investors this 1%-2% per year return is insufficient to meet their long-term financial goals.

To enjoy the stock market's long-term average 7% return (and potentially higher for hedge funds and private equity), one must embrace and accept the fact that there will be some bumps along the way.

You Gotta Be In It To Win It

I had the pleasure of holding a portfolio of stocks during the great financial crisis of 2008; even watching my entire portfolio drop by double digits some days. It was distressing to go through, especially for a young person with modest savings and only a couple years into their career. But those with the intestinal fortitude to buy stocks when the market was crashing were rewarded handsomely, with many stocks going up 5x – 10x (or more) in the ensuing rebound.

Ever wish you bought Amazon stock in its IPO and held to this today? Sure, you'd likely be a multimillionaire. But you would have had to suffer through jarring volatility that would test even the most determined of investors. In addition to a number of more than -50% declines, Amazon's stock dropped a stunning -95% after the tech bubble burst. Most investors do not have the fortitude to handle this sort of decline and that's why Jeff Bezos is the world's richest man. Japan's richest, Masayoshi Son, watched his net worth decline -99% in the early 2000's. Good thing he has the resilience to follow a 300 year plan.

Over the long run, the stock market can make investors rich. But if it were easy, everyone would do it. Sustaining large drawdowns in net worth, and having the intestinal fortitude to not panic sell at the bottom, is the price of admission in getting rich.

"...you can argue that if you're not willing to react with equanimity to a market price decline of 50% two or three times a century you're not fit to be a common shareholder, and you deserve the mediocre result you're going to get compared to the people who do have the temperament, who can be more philosophical about these market fluctuations."

– Berkshire Hathaway Vice Chairman Charlie Munger

Embracing the suck can be a badge of honor and a testament to the dedication of those who adopt it. You're far better off just embracing the suck in the markets and holding long-term, recognizing that the market on average tends to drop -10% every year, -20% every handful of years and over -50% at least a couple times in your investing lifetime. This is the cost of building long-term wealth.

-Julian