

PERSPECTIVES

Why a Stock Peak Isn't a Cliff

Dec 17, 2021

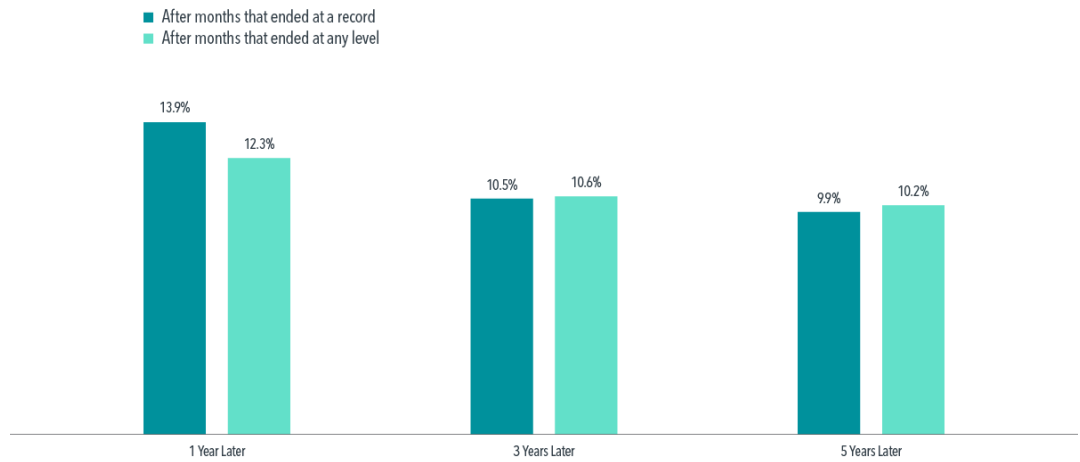
Many investors may think a market high is a signal stocks are overvalued or have reached a ceiling. But they may be surprised to find out that the average returns for the S&P 500 Index one, three, and five years after a new market high are similar to the average returns for the index over any one-, three-, or five-year period.

In looking at all 1,000-plus monthly closing levels between 1926 and 2020 for the S&P 500 Index, 30% of the monthly observations were new market highs. After those highs, the average annualized compound returns ranged from nearly 14% one year later to just under 10% five years later. Those results were close to average returns over any given period of the same length. When viewed in terms of the index simply having risen or fallen, the S&P 500 was higher a year after notching a record 82% of the time, and 78% of the time after five years.

Exhibit 1

S&P 500 Index Returns,
1926-2020

Average Annualized Compound Returns



Past performance is no guarantee of future results. Performance may increase or decrease as a result of currency fluctuations. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

In US dollars. For illustrative purposes only. New market highs are defined as months ending with the market above all previous levels for the sample period. Annualized compound returns are computed for the relevant time periods subsequent to new market highs and averaged across all new market highs observations. There were 1,139 observation months in the sample. January 1926–December 1989: S&P 500 Index, Stocks, Bonds, Bills and Inflation Yearbook™, Ibbotson Associates, Chicago. January 1990–Present: S&P 500 Index (Total Return), S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

History shows that reaching a new high doesn't mean the market will then retreat. In fact, stocks are priced to deliver a positive expected return for investors every day, so reaching record highs with some regularity is exactly the outcome one would expect.

The information in this document is provided in good faith without any warranty and is intended for the recipient's background information only. It does not constitute investment advice, recommendation, or an offer of any services or products for sale and is not intended to provide a sufficient basis on which to make an investment decision. It is the responsibility of any persons wishing to make a purchase to inform themselves of and observe all applicable laws and regulations. Unauthorized copying, reproducing, duplicating, or transmitting of this document are strictly prohibited. Dimensional accepts no responsibility for loss arising from the use of the information contained herein.

"Dimensional" refers to the Dimensional separate but affiliated entities generally, rather than to one particular entity. These entities are Dimensional Fund Advisors LP, Dimensional Fund Advisors Ltd., Dimensional Ireland Limited, DFA Australia Limited, Dimensional Fund Advisors Canada ULC, Dimensional Fund Advisors Pte. Ltd., Dimensional Japan Ltd., and Dimensional Hong Kong Limited. Dimensional Hong Kong Limited is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.

UNITED STATES: Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

Investment products: • Not FDIC Insured • Not Bank Guaranteed • May Lose Value
Dimensional Fund Advisors does not have any bank affiliates.

CANADA: These materials have been prepared by Dimensional Fund Advisors Canada ULC. It is provided for educational purposes only, should not be construed as investment advice or an offer of any security for sale and does not represent a recommendation of any particular security, strategy or investment product. Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund investments. Unless otherwise noted, any indicated total rates of return reflect the historical annual compounded total returns, including changes in share or unit value and reinvestment of all dividends or other distributions, and do not take into account sales, redemption, distribution, or optional charges or income taxes payable by any security holder that would have reduced returns. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

AUSTRALIA and NEW ZEALAND: This material is issued by DFA Australia Limited (AFS License No. 238093, ABN 46 065 937 671). This material is provided for information only. No account has been taken of the objectives, financial situation or needs of any particular person. Accordingly, to the extent this material constitutes general financial product advice, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to the investor's objectives, financial situation and needs. Investors should also consider the Product Disclosure Statement (PDS) and the target market determination (TMD) that has been made for each financial product either issued or distributed by DFA Australia Limited prior to acquiring or continuing to hold any investment. Go to au.dimensionalfundadvisors.com/funds to access a copy of the PDS or the relevant TMD. Any opinions expressed in this material reflect our judgement at the date of publication and are subject to change.

WHERE ISSUED BY DIMENSIONAL IRELAND LIMITED OR DIMENSIONAL FUND ADVISORS LTD.

Neither Dimensional Ireland Limited (DIL) nor Dimensional Fund Advisors Ltd. (DFAL), as applicable (each an "Issuing Entity," as the context requires), give financial advice. You are responsible for deciding whether an investment is suitable for your personal circumstances, and we recommend that a financial adviser helps you with that decision.

NOTICE TO INVESTORS IN SWITZERLAND: This is an advertising document.

WHERE ISSUED BY DIMENSIONAL IRELAND LIMITED

Issued by Dimensional Ireland Limited (DIL), with registered office 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland. DIL is regulated by the

Central Bank of Ireland (Registration No. C185067). Information and opinions presented in this material have been obtained or derived from sources believed by DIL to be reliable, and DIL has reasonable grounds to believe that all factual information herein is true as at the date of this document.

DIL issues information and materials in English and may also issue information and materials in certain other languages. The recipient's continued acceptance of information and materials from DIL will constitute the recipient's consent to be provided with such information and materials, where relevant, in more than one language.

WHERE ISSUED BY DIMENSIONAL FUND ADVISORS LTD.

Issued by Dimensional Fund Advisors Ltd. (DFAL), 20 Triton Street, Regent's Place, London, NW1 3BF. DFAL is authorised and regulated by the Financial Conduct Authority (FCA). Information and opinions presented in this material have been obtained or derived from sources believed by DFAL to be reliable, and DFAL has reasonable grounds to believe that all factual information herein is true as at the date of this document.

DFAL issues information and materials in English and may also issue information and materials in certain other languages. The recipient's continued acceptance of information and materials from DFAL will constitute the recipient's consent to be provided with such information and materials, where relevant, in more than one language.

RISKS

Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.

JAPAN: Provided for institutional investors only. This document is deemed to be issued by Dimensional Japan Ltd., which is regulated by the Financial Services Agency of Japan and is registered as a Financial Instruments Firm conducting Investment Management Business and Investment Advisory and Agency Business. This material is solely for informational purposes only and shall not constitute an offer to sell or the solicitation to buy securities or enter into investment advisory contracts. The material in this article and any content contained herein may not be reproduced, copied, modified, transferred, disclosed, or used in any way not expressly permitted by Dimensional Japan Ltd. in writing. All expressions of opinion are subject to change without notice.

Dimensional Japan Ltd.

Director of Kanto Local Finance Bureau (FIBO) No. 2683

Membership: Japan Investment Advisers Association

FOR PROFESSIONAL INVESTORS IN HONG KONG.

This material is deemed to be issued by Dimensional Hong Kong Limited (CE No. BJE760) ("Dimensional Hong Kong"), which is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.

This material should only be provided to "professional investors" (as defined in the Securities and Futures Ordinance [Chapter 571 of the Laws of Hong Kong] and its subsidiary legislation) and is not for use with the public. This material is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence, or otherwise) the publication or availability of this material are prohibited or which would subject Dimensional Hong Kong (including its affiliates) or any of Dimensional Hong Kong's products or services to any registration, licensing, or other such legal requirements within such jurisdiction or country. When provided to prospective investors, this material forms part of, and must be provided together with, applicable fund offering materials. This material must not be provided to

prospective investors on a standalone basis. Before acting on any information in this material, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice.

Unauthorized copying, reproducing, duplicating, or transmitting of this material are prohibited. This material and the distribution of this material are not intended to constitute and do not constitute an offer or an invitation to offer to the Hong Kong public to acquire, dispose of, subscribe for, or underwrite any securities, structured products, or related financial products or instruments nor investment advice thereto. Any opinions and views expressed herein are subject to change. Neither Dimensional Hong Kong nor its affiliates shall be responsible or held responsible for any content prepared by financial advisors. Financial advisors in Hong Kong shall not actively market the services of Dimensional Hong Kong or its affiliates to the Hong Kong public.

SINGAPORE

This material is deemed to be issued by Dimensional Fund Advisors Pte. Ltd., which is regulated by the Monetary Authority of Singapore and holds a capital markets services license for fund management.

This advertisement has not been reviewed by the Monetary Authority of Singapore. This information should not be considered investment advice or an offer of any security for sale. All information is given in good faith without any warranty and is not intended to provide professional, investment, or any other type of advice or recommendation and does not take into account the particular investment objectives, financial situation, or needs of individual recipients. Before acting on any information in this material, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice. Dimensional Fund Advisors Pte. Ltd. does not accept any responsibility and cannot be held liable for any person's use of or reliance on the information and opinions contained herein. Neither Dimensional Fund Advisors Pte. Ltd. nor its affiliates shall be responsible or held responsible for any content prepared by financial advisors.

dimensional.com

