

Is a 'Double Negative' in the S&P 500 Index coming?

The S&P 500 Index had a return of -18.11% for the calendar year 2022. If we exclude the dividends generated by the Index, the return was -19.44%. What are the chances we will have a negative year in 2023, resulting in a Double Negative? We asked an expert to explain.

RETIREMENT DAILY GUEST CONTRIBUTOR • JUN 29, 2023 7:00 AM EDT

By Kenneth Kaszak

The S&P 500 Index (the Index) is an unmanaged, fee-free collection of U.S. businesses chosen for size, industry, liquidity and representation of the U.S. economy. (There are actually 505 current members as five members have dual share classes.) The Index is broken down into 11 categories (Consumer Staples, Financials, Health Care, Energy, et. al.)

Some people refer to the Index as The Market, as in "The Market doesn't like uncertainty," and "The Market is forward thinking." But you shouldn't do that. It's annoying.

How Often Do Double Negatives Happen?

Let's look at data over the last 95 years (1928-2022) to see how often Double Negatives have happened. Including dividends, the Index was negative in 25 of the previous 95 years (26.3% of the time). Double negatives happened eight times (8.4% of the time). A closer look: three of those times occurred during the years 1931 to 1933. Comparing the Index then to the Index today is like comparing music played on an 8-track player to music streamed digitally.

In the late 1920s, there was no Securities and Exchange Commission (SEC), there was no Truth in Advertising for the securities industry, and there weren't trading rules in place to protect investors. The concept of a group of investors getting together to buy up shares of a company, promote the company so other investors bid the price up, and then collectively sell the shares (Pump and Dump) was not illegal. Margin rules were almost nonexistent. It was possible to put up \$1.00 and buy \$100 worth of stock. Bankers were embezzling money to "play" in the market. Prospectuses were works of fiction. (The best read on this subject is John Kenneth Galbraith's *The Great Crash, 1929* published in 1955).

So, we are going to rule out the four-year period from 1929 to 1932 which resulted in three back-to-back negative years. We had three consecutive negative years in 1939-1941. There was a Post-Depression, Pre-War Recession from 1937-1938 caused by the exact policies a

government shouldn't do in a recession—reduced federal spending and increased income taxes.

So, 1940 and 1941 do make our list as consecutive negative years.

It took 32 years for the next Double Negative to occur in 1973 and 1974. This one is most often attributed to the OPEC oil embargo. During the intervening 32 years, the Index had six negative years (18.75% of the time, below the 95-year average of 26.3%).

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It's often stated that our financial memory is a short one. Many people I deal with have already forgotten that this century opened with a Triple Negative (2000-2002). If we need to find a cause for this one, the 9/11 attacks in 2001 and the Summer of Accounting Scandals in 2002 could be our villains. So, the first three years of this century gave us two more Double Negatives.

Of note: there was a major bubble (known as the Tech Bubble or Dot.Com Bubble) at the end of the 1990s. The Average Annual Return of the Index for the five-year period 1995 to 1999 was 28.76%. That aberrational Index performance wasn't the cause of the bubble bursting—but it certainly was a major symptom. (Ironically, the five-year AAR of the Index for the years 1924 to 1928 was 29.26%.)

So What Does That Suggest About 2023?

So, what is the answer? What is the chance the Index will be negative in 2023 and give us a Double Negative? A better way to state the question is, "What is the percentage chance the Index will be negative in 2023?"

And the answer is this: 50%.

The answer is always 50%.

Everything you've read to this point is irrelevant. It's fluff and fill. There are two reasons why the chance for a negative year—at the beginning of any year—is 50%:

1. Nobody knows the world events that will happen during the year and how investors will react to them.
2. The Index doesn't own a calendar and the Index doesn't know its history.

The 50% answer will, of course, not stop the business media from interviewing advisors about their predictions for the performance of the 2023 Index or brokers from conducting

South Hills Country Club seminars and sharing their predictions on the 2023 Index performance. It's helpful to remember that these pundits aren't there for your benefit. They're there to benefit themselves or the media outlets who are selling advertisements behind the interviews. John Kenneth Galbraith, in another appearance in this article, said it best, "Pundits forecast not because they know, but because they are asked."

What Does This Mean For Me?

Since you now know that the Index has a 50% chance of being negative (inversely, a 50% chance of being positive) what should you do? Here is what I tell my clients and potential clients:

1. If you find yourself at a South Hills Country Club investment seminar, enjoy the chicken marsala, the free drinks, and the dessert cart.
2. Make sure you understand all the fees you are paying for investment products and management.
3. Study the history and mechanics of the investment markets.
4. Learn how your own "biased behavior" affects your decision-making and your reaction to market events.

If you do Numbers 2-4, there is a 100% chance you will become a better investor.

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Data source: Moneychimp.com

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There may or may not be a recession on the way. But if there is, your portfolio may not suffer. Our expert has the details.

RETIREMENT DAILY GUEST CONTRIBUTOR • AUG 25, 2023 12:10 PM EDT

By Ken Kaszak

There have been 11 recessions since 1950.

In macroeconomics a recession is defined as two or more consecutive quarters of negative Gross Domestic Product (GDP) growth. The Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) defines a recession as "...a significant decline in the economic activity spread across the economy lasting more than a few months, normally visible in real GDP growth, real personal income, employment, industrial production, and wholesale-retail sales." The Dating Committee of NBER is also responsible for establishing the start and finish of each recession. By the nature of business activity, dating is always done in hindsight.

Recessions Don't Always Hurt Stocks

Despite what you may have heard, the stock market, as measured by the performance of the unmanaged, no-fee S&P 500, has had some of its best-performing years during, or immediately after, a recession. The table below presents the post-1950 recessions from start to finish, the GDP decline, the highest unemployment rate during the decline, and the S&P 500 return during the years (or months) involved.

Start - Finish	GDP Decline	Max. UE	SP 500 Return
07/53 - 05/54	2.2%	2.9%	20.4%
08/57 - 04/58	3.3%	6.2%	(10%)
04/60 - 02/61	2.4%	6.9%	14.19%
12/69 - 11/70	0.8%	5.5%	(7.8%)

Start - Finish	GDP Decline	Max. UE	SP 500 Return
11/73 - 03/75	3.6%	8.8%	(22.13%)
01/80 - 07/80	1.1%	7.8%	15.57%
07/81 - 11/82	3.6%	10.8%	1.3%
07/90 - 03/91	1.5%	6.8%	4.3%
03/01 - 11/01	0.3%	5.5%	(<1%)
12/07 - 06/09	5.1%	10.0%	(37%)
02/20 - 04/20	19.3%	14.7%	(9.5%)

Note: S&P 500 performance measures the Index only; dividends are excluded.

Yahoo Finance S&P 500 (Symbol = ^GSPC) Historical Data, Moneychimp, Wikipedia

The periods under study touched all or part of 21 different calendar years. The “recession years” are split 11-10 for positive vs. negative. While there were six years in which the calendar year decline was greater than 8% ('57,'69, '73, '74, '01, '08), there were seven years in which the return was in excess of 20% ('54, '58, '61, '75, '80, '91,'09).

Why Would Markets Gain in a Recession?

Some of the reasons why the market can perform well during a recession is that a declining market presents a buying opportunity—well-established companies that have been oversold become attractive to buyers, and climbing dividend yields make stocks even more attractive. Low interest rates (the Federal Reserve often cuts interest rates to spur economic activity) make fixed-income and bank instruments less attractive to investors who move money into equities. I've often theorized that the same investors who “overbought” the stock market to put it into an “overvalued” status are the same investors who “oversell” the market to make it attractive to investors—themselves included!

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So are we entering another recession this year? How will we know?

At the time of this writing (August 2023) the business media have been speculating for months about a coming recession, whether or not we're already in a recession or the possibility of a "soft landing" due to the actions of the Federal Reserve Board. Of interest: the term "soft landing" to describe a short and shallow recession first gained popularity in the early 1970s on the heels of the successful Apollo 11 moon landing in 1969. The term is used (overused?) by the business media constantly so let's give credit to its origination.

If and when there is a recession, when will the Dating Committee of the NBER say it started? When will it end? Nobody knows. Not the talking head on CNBC or your favorite broker taking calls on the local radio station. It would be great if a bell would ring to announce the end of the recession. But that's not going to happen.

What will happen? I don't know for sure; but there will be "pent-up demand" that at some point will couple with increasing consumer confidence, and people will buy items they or their businesses and households need and have put off purchasing. Then people will resume buying items they don't necessarily need but want. And at some future date, the Dating Committee will tell us something we already knew—the recession is over. The bell will have been rung but we didn't hear it—we were busy buying things.

Recessions are Like Baseball

Bob Prince was the announcer for the Pittsburgh Pirates when I was developing my love of baseball. If the team was on a losing streak, or a favorite player was mired in a batting slump, Prince would offer up the concept of the "hidden vig". The hidden vigorish meant the longer something continued, the closer it was to changing course. When Roberto Clemente was hitless in his last 20 at-bats, Prince would tell us that the longer Roberto went without getting a hit, the closer he was to getting one. The longer we go without a recession, the closer we are to having a recession. Then, the longer we are in a recession, the closer we are to getting out of it.

It made perfect sense to me when Bob Prince said it many years ago. And it makes perfect sense to me now.

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A Closer Look at Inflation – Then and Now

The '70s had much better music but much worse inflation!

RETIREMENT DAILY GUEST CONTRIBUTOR • NOV 1, 2023 7:00 AM EDT

By Ken Kaszak

When I was a younger person, I vowed never to say, “Back when I was a younger person...” and then launch into a speech about how things used to be. But I’m going to break that vow – and hopefully only this one time.

The inflation that was prevalent in 2021 and 2022 is nothing like the inflation a child of the 1970s experienced.

Inflation Now and in the 1970s

When an inflation rate is cited, it is usually the CPI-U, standing for the Consumer Price Index for All Urban Consumers. It was originated by the Bureau of Labor Statistics in 1917, with estimates going back to 1913. The data and collection methods are considered generally compatible through the present day, according to the Federal Reserve Bank of Minneapolis.

The CPI-U/CPI was 4.7% in calendar year 2021 and 8.0% in 2022. The mid-year estimate for 2023 was 4.0%, based on the change from 2nd quarter 2022 to 2nd quarter 2023. The inflation rate for the 12-month period ending September 2023 was 3.7%, per the BLS.

Inflation rates of 4.7% and 8.0%? Wow. Out of control!

Well, not really. Compare that to the inflation rate for the 13-year period from 1970 to 1982, when the CPI averaged 7.75% with these rates from 1979-1981: 11.3%, 13.5%, 10.3%.

Now, that’s inflation, youngsters.

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Why Inflation Spiked

Reasons for the 2021-2022 inflation are usually given as a combination of COVID-19 related stimulus payments, including the PPP loans, supply chain issues and federal spending packages. Reasons for the 1970-1982 inflation are usually given as the delayed effects of financing the Vietnam War, the 1965 Medicare program, the War on Poverty and other Great Society programs that massively increased federal spending without a corresponding increase in taxes or less federal spending elsewhere.

Plus, there was one other culprit.

The OPEC oil embargo started in October 1973. The price of a gallon of gas went from 36 cents in 1972 to 39 cents in 1973 to 59 cents in 1974. The price change doesn't seem great but the percentage change from 1973 to 1974 was 51%. And my memory is that most people were driving cars that got 7 to 8 miles to the gallon. My brother had a beautiful 1972 Pontiac Grand Prix with a 455 V-8 engine and a four-barrel carburetor. He probably got two gallons to the mile. He had to go to the gas station frequently and, like everybody else, he had to abide by an Even-Odd rationing system (you could only get gas on days of the week that were even numbers if the last digit of your license plate was even, and same for odd numbers.) People were encouraged not to drive their cars when possible. Black & white photos of 1960s and early 1970s cars in long lines at the gas pumps still circulate on the internet. A favorite photo of mine from that era shows a group of young people in Los Angeles having a picnic right on the freeway with zero concern that they would be interrupted by a passing car.

I do remember when President Richard Nixon imposed a 90-day price control freeze. In researching this piece, I was surprised the freeze was imposed so early in the decade, on August 15, 1971. My first economics professor told the example of candy bar manufacturers abiding by the President's decree in keeping the price of their product constant—and then reducing the size of the product by 25%. The 90-day price freeze lasted longer than 90 days (ending on 01/15/73 and then being reinstated on 06/13/73). Had it been 90 days and done, the program may have been considered successful. But the extended period led to pent-up demand that was inflationary when the freeze was lifted. The oil embargo was getting underway and was either a reason for the end of the price controls or more fuel for the inflation fire.

The years 1973 and 1974 were the "Oil Embargo Years." The S&P 500 Index had returns of (15.03%) and (26.95%) in those two years. If dividends were excluded, the returns would have been (17.37%) and (29.63%). It was one of the few "Double Negative" periods in the post-1930s era. In spite of that Double Negative, investors in the Index didn't fare too poorly over the 13-year period. The Average Annual Return (AAR) for the Index was 7.87%, with seven years having double digit returns ('71,'72,'75,'76,'79,'80,'81). However, dividends were a higher percentage of Index returns during this time. If dividends were excluded for the 13-year period under study, the AAR would have been just 3.31%.

When people complain today about the increase in interest rates, I reply with this: anyone who is in a position to influence monetary policy today (i.e., Jerome Powell, Janet Yellen, Jamie Dimon, etc.) were young bankers (both private sector and public sector), economists or students of economics during the 1970s. They have strong memories of the price freeze,

the gas lines and the three consecutive years of double-digit inflation. They will do everything they can in their power to prevent a repeat.

How Did the 1970s Inflation End?

President Jimmy Carter played a key role in finally bringing raging inflation to heel. Carter nominated Paul Volcker to be Chairman of the Federal Reserve in 1979. Volcker knew the only way to curtail inflation was to create a recession. He did so by raising the federal funds rate to a staggering 20% in June of 1981 from an average of 11.2% in 1979 (as of 10/17/23, that rate is 5.33%.) Volcker's action created a severe recession (actually the Double Dip recessions from 01/80-07/80 and then from 07/81-11/82.) It was an extremely unpopular move, especially among homebuilders, farmers and the industrial sector. As a protest, for example, farmers drove their tractors to Washington, DC and staged a "tractor in" at the Eccles Building, where the Federal Reserve was located.

Unpopular as it was, Volcker's action worked. After three consecutive years of double-digit inflation, the CPI dropped to 6.1% in 1982. After the inflation rate averaged 7.75% from 1970 to 1982, the next 13-year period saw an average rate of 3.57%. Jimmy Carter doesn't get the credit he deserves for nominating Paul Volcker to be Federal Reserve Chairman. Maybe an article such as this one will give Jimmy Carter and Paul Volcker some long overdue acknowledgment.

*Special thanks to my brother for giving me his Isley Brothers, Average White Band, and Cat Stevens albums.

Sources: Moneychimp CAGR of the Stock Market, Federal Reserve Bank of Minneapolis, Consumer Price Index, 1913-, Paul Volcker Wikipedia page, The Wall Street Journal, "Nixon Taught Us How Not to Fight Inflation," August 13, 2021.

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