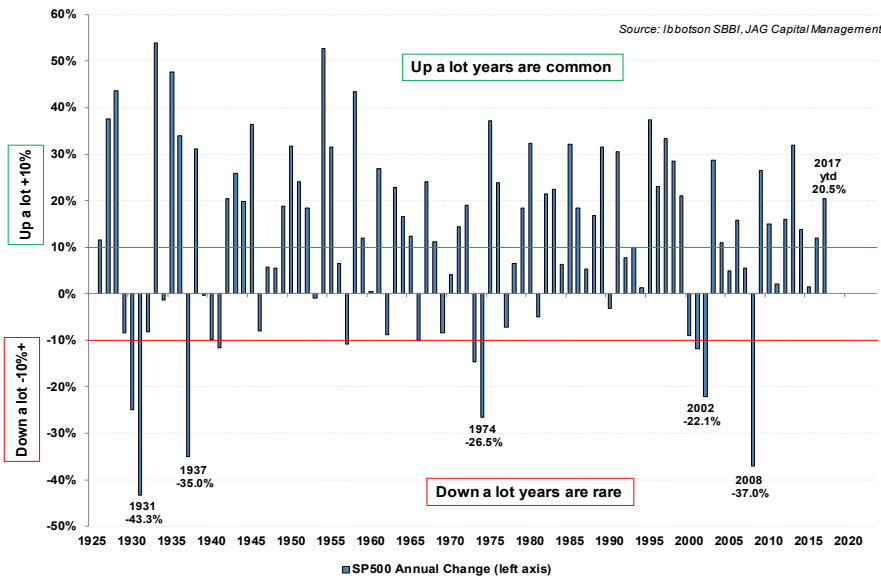


## Timely Insights from JAG's Research Team

Total reading time = 2 minutes

### S&P 500 Annual Percentage Change



To paraphrase legendary investor Ken Fisher, yearly stock market returns can be divided into four simple categories. Stocks can be up a lot (10%+), up a little (between 0% and 10%), down a little (between 0% and -10%), or down a lot (fall by more than 10%). **Thankfully for long-term investors, “up a lot” years are relatively common. The S&P 500 experienced gains of greater than 10% in 52 of the last 91 calendar years, including 2017.** Sure, there have been some brutal down years, including 2008 most recently. But happily, such disasters are rare, and they have created attractive buying opportunities for disciplined investors.

### Barron's Analyst Forecasts: 2017 and 2018

As of 12/16/2016 >>>		S&P 500	2,258	S&P 500 Op EPS	\$108.95	10 yr Trsy Yield	2.60%
Analyst	Firm	Year-End 2017 S&P 500	Implied % Chg from 12/16/2016	GDP Growth 2017	S&P EPS 2017	Implied S&P 500 Op EPS % Chg in 2017	10 Yr Trsy Yield
Stephen Auth	Federated Investors	2,350	4.1%	3.00%	\$130.00	19.3%	3.00%
Jonathan Glionna	Barclays Capital	2,400	6.3%	2.20%	\$127.00	16.6%	2.40%
Jeffrey Knight	Columbia Mgmt	2,450	8.5%	3.00%	\$135.00	23.9%	2.90%
Heidi Richardson	Blackrock	2,400	6.3%	2.40%	\$127.00	16.6%	2.75%
David Kostin	Goldman Sachs	2,300	1.9%	2.20%	\$116.00	6.5%	2.75%
Dubravko Lakos-Bujas	JP Morgan	2,400	6.3%	2.10%	\$128.00	17.5%	2.55%
Tobias Levkovich	Citi Research	2,325	3.0%	1.80%	\$129.00	18.4%	2.60%
Adam Parker	Morgan Stanley	2,300	1.9%	2.00%	\$128.70	18.1%	2.50%
John Praveen	Prudential Intl.	2,575	14.0%	3.00%	\$122.20	12.2%	2.75%
Savita Subramanian	BofA Merrill Lynch	2,300	1.9%	2.00%	\$129.00	18.4%	2.65%
Average		2,380	5.4%	2.37%	\$127.19	16.7%	2.69%
Median		2,375	5.2%	2.20%	\$128.35	17.8%	2.70%

Source: December 19th, 2016 issue of Barron's Magazine

Barron's 2018 Analyst Forecasts		12/11/2017	S&P 500	2,660	S&P 500 Op EPS	\$118.60	10 yr Trsy Yield	2.39%
Analyst	Firm	Year-End 2018 S&P 500	Implied % Chg from 12/16/2017	GDP Growth 2018	S&P EPS 2018	Implied S&P 500 Op EPS % Chg in 2018	10 Yr Trsy Yield	
Stephen Auth	Federated Investors	3,000	12.8%	2.90%	\$150.00	26.5%	2.75%	
Jeffrey Knight	Columbia Threadneedle	2,750	3.4%	3.10%	\$144.00	21.4%	3.10%	
David Kostin	Goldman Sachs	2,850	7.1%	2.50%	\$150.00	26.5%	3.00%	
Dubravko Lakos-Bujas	JP Morgan	2,800	5.3%	2.30%	N/A	N/A	2.70%	
Tobias Levkovich	Citi Research	2,675	0.6%	2.70%	\$141.00	18.9%	2.75%	
John Praveen	PGIM	2,925	10.0%	2.80%	\$139.30	17.5%	3.00%	
Rob Sharps	T. Rowe Price	2,775	4.3%	2.50%	\$150.00	26.5%	2.75%	
Savita Subramanian	BofA Merrill Lynch	2,800	5.3%	2.40%	\$139.00	17.2%	2.90%	
Mike Wilson	Morgan Stanley	2,750	3.4%	2.10%	\$145.00	22.3%	1.95%	
Ed Yardeni	Yardeni Research	3,100	16.5%	3.00%	\$147.00	23.9%	2.75%	
Average		2,843	6.9%	2.63%	\$145.03	22.3%	2.77%	
Median		2,800	5.3%	2.60%	\$145.00	22.3%	2.75%	

Source: December 11th, 2017 issue of Barron's Magazine

On average, the 10 analysts polled by Barron's this time last year predicted the S&P 500 to rise only 5.4% in 2017. Whoops! As is often the case, the smartest folks on Wall Street proved they can be fallible. While they correctly predicted the general direction of stock prices (up), they did not come close to foreseeing the magnitude of gains we have experienced this year. Understand that we are not maligning investment strategists. They are almost uniformly intelligent, dedicated, and hard-working professionals. Unfortunately, they have all been trained and educated similarly, and they tend to rely upon almost identical data to inform their forecasts. Consequently, their market predictions tend to be tightly grouped with one another. So, it should come as no surprise that their 2018 are again clustered around “up a little” prediction for stocks. **The Barron's 2018 Analyst Survey's average prediction calls for a roughly 7% gain for the S&P 500 next year.** If history is any guide, the market is likely to either undershoot or overshoot this consensus expectation.

## How Does the S&P 500 Perform in the Year Following an Up a Lot Year?

Following Year Performance Category	# of Occurrences	% of Total
Up a Lot	29	55.8%
Up a Little	9	17.3%
Down a Little	11	21.2%
Down a Lot	3	5.8%
Total*	52	100.0%

*The S&P 500 was Up a Lot in 52 of the past 91 years.*

Since 1926, the S&P 500 has had 52 “up a lot” calendar years, including 2017. So what has tended to happen the following year? **Somewhat surprisingly, the most common outcome after a big up year has been yet another year of strong gains.** This has occurred 29 times, or in 55.8% of the cases. Could the market be down a lot in 2018? Sure! Anything can happen in the capital markets. But historically speaking, strong yearly gains have been following by big declines only 3 times. Let’s call that what it is: a low-probability outcome. As we have already discussed, Wall Street expects modest gains in 2018, but that has only occurred 9 times, or in 17.3% of instances. **In our opinion, the historical probabilities favor a continuation of the bull market trend through 2018 for next year, to an extent that could (again) surpass consensus expectations.**

### Disclosures

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