Discretion Is The Better Part Of Valor

View from the Observation Deck

1. Think before you act. In addition to being sound advice on its face, it is also the takeaway from today’s blog post header.

2. There has been a great deal of discussion and debate in recent years as to whether or not the concept of buy and hold investing is still viable today. Traders tend to say no, but we say yes.

3. The chart compares the total return performance of the S&P 500 Consumer Discretionary Index (cyclical) and the S&P 500 Consumer Staples Index (non-cyclical/defensive) over the past 1-, 3-, 5-, 10- and 15-year periods.

4. Consumer discretionary stocks tend to perform better when the U.S. and global economies are in expansion mode. The products and services marketed by these companies are not deemed as necessities.

5. Consumer staples stocks are much less influenced by fluctuations in economic cycles. Their products tend to fill daily needs so consumers try and budget for them regardless of their financial situation.

6. While the S&P 500 Consumer Discretionary Index performed the best in each of the times periods featured in the chart, the time period that stands out the most, in our opinion, is the 5-year.


8. The S&P 500 Consumer Discretionary Index posted a total return of -33.49% in 2008, vs. -15.43% for the S&P 500 Consumer Staples Index. An investor would have incurred less downside in the latter index.

9. Despite a 33.49% plunge in the first year, the recovery over the next four calendar years generated a 5-year annualized total return of 9.55% for the S&P 500 Consumer Discretionary Index, vs. 6.96% for the S&P 500 Consumer Staples Index.

10. When you think about it, it makes sense. Since 1945, the average length of a U.S. economic expansion is 59 months, compared to just 11 months for the average contraction/recession, according to the National Bureau of Economic Research.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Consumer Discretionary Index is a capitalization-weighted index and encompasses industries that tend to be the most sensitive to economic cycles, while the S&P 500 Consumer Staples Index is a capitalization-weighted index of companies that are not sensitive to economic cycles.