

# Landmark Asset Management Investor Notes

Topic: Outcome Risk

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## Outcome Risk: What's Your Investment Perspective?

In this issue of **Investor Notes** we will review the subject of Outcome Risk. This form of risk is often overlooked by investors, but it's probably one of the most important measures of risk to consider.

Outcome risk is defined by the amount by which investments fail to meet an obligation or to achieve a desired result over a specified period of time. In other words, the outcome risk relates to the probability associated with an investment not reaching its expected profit target or growth potential target within a defined period of time.

Investors tend to focus on short-term risk and often overlook outcome risk because it is perceived to be in the future. There will always be short-term volatility in the trading performance of any investment vehicle. Failure to accept some short-term risk might mean never attaining ones long-term goals. The object is to focus on a time horizon that offers the best potential for profit for an investment.

The following analysis focuses on outcome risk as it relates to the S&P 500, Dow Jones and Managed Accounts Reports (MAR) indices. The MAR index represents the cumulative performance of the managed futures industry.

The tables itemize the best, worst, average, and latest performance numbers for the two indices over a 22+ year period.

As with any investment with an upward bias, the probability of becoming profitable dramatically increases as the time horizon is lengthened. When analyzing periods of poor performance, better performing long-term investments will require a shorter time window to reach new highs when compared to underperforming long-term investments that require a considerably longer time window to reach new highs.

Table 1: S&P 500 Index

Months	Best	Worst	Avg.	Latest
1	13.2%	-21.8%	0.8%	-11.0%
3	24.9%	-30.2%	2.6%	-17.6%
6	35.7%	-28.9%	5.6%	-28.9%
12	53.4%	-27.5%	11.8%	-21.7%
18	60.9%	-33.3%	18.5%	-29.7%
24	76.8%	-43.2%	26.2%	-43.2%
36	120.0%	-36.9%	45.3%	-36.9%
48	173.1%	-20.1%	65.9%	-20.1%
60	220.0%	-13.9%	89.4%	-13.9%
72	236.3%	18.7%	113.2%	18.7%
84	237.3%	39.6%	137.6%	39.6%

The S&P 500 Index required between five years (60 months) and six years (72 months) to generate a positive return based on the worst-case scenario.

The outcome risk tables offer investors an historical worst-case perspective. The highlighted rows for the indices represent the historically worst case required time frames for each investment to reach new highs. As reflected in Table 1, if one were to invest in the S&P 500 at the most historically inopportune time over the past 22 years, it would take between five years (60 months) and six years (72 months) to generate a profit. When reviewing the past 100 year time period in the S&P 500 (not shown in the table below), the longest period required for the S&P 500 to reach new highs was 22 years (1929-1951). Similar to the S&P 500 Index Table 2 (page 2) outlines the results for the Dow Jones Average. There again historically it would take between five years (60 months) and six years (72 months) to generate a profit based on the worst-case scenario.

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Investors tend to fixate on short-term time frames because they view the future from an optimistic perspective.

Conversely, it might surprise some investors to find that the MAR index, a proxy for managed futures investment programs, required less time to produce an historic profit than the S&P 500 and Dow Jones markets. Table 3 outlines that it would take the MAR index between three years (36 months) and four years (48 months) to generate a positive return based on the historically worst-case scenario.

Investors tend to fixate on short-term time frames because they view the future from an optimistic perspective. However, we now know that long-term success comes from aligning expectations with the reality of actual historical performance analysis across multiple time-frames. The bear market over the past few years has brought investors back to reality and reminded us that we must be willing to research and understand the positive aspects and the negative aspects of each investment opportunity. We then can determine the appropriate time commitment required to, even in the worst case, become potentially profitable. It is important to note, however, that there is never a guarantee of profits with any speculative investment.

In conclusion, investors need to be conscious of the worst case time window required to become profitable for each long-term investment. A quick review of various performance time frames will give investors a basis on which to establish reasonable expectations for each investment under consideration.

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Table 2: Dow Jones Average

Months	Best	Worst	Avg.	Latest
1	13.8%	-23.2%	1.0%	-12.5%
3	21.6%	-31.1%	3.0%	-18.0%
6	36.9%	-27.2%	6.3%	-27.2%
12	48.7%	-23.7%	13.4%	-14.3%
18	73.5%	-23.3%	20.7%	-23.3%
24	99.7%	-28.9%	28.6%	-28.9%
36	118.4%	-27.6%	45.5%	-27.6%
48	149.7%	-4.6%	68.0%	-4.6%
60	202.6%	-5.8%	92.1%	-5.8%
72	214.8%	27.2%	119.2%	27.2%
84	248.3%	46.4%	148.5%	56.2%

The Dow Jones required between five years (60 months) and six years (72 months) to generate a positive return based on the worst-case scenario.

Table 3: MAR Index

Months	Best	Worst	Avg.	Latest
1	24.3%	-10.0%	1.2%	0.2%
3	37.1%	-17.3%	3.3%	-2.1%
6	41.5%	-15.8%	6.4%	-1.6%
12	57.8%	-17.6%	12.9%	-2.6%
18	86.4%	-18.0%	20.0%	14.0%
24	83.6%	-18.1%	27.6%	9.6%
36	125.2%	-2.4%	45.0%	12.3%
48	182.3%	13.9%	66.5%	21.8%
60	204.6%	27.9%	92.6%	28.3%
72	237.1%	52.2%	122.9%	56.4%
84	281.1%	57.7%	157.2%	61.8%

The MAR Index required between three years (36 months) and four years (48 months) to generate a positive return based on the worst-case scenario.