Will the S&P Keep Growing for the Next Decade?

JERSEY CITY, NJ, UNITED STATES, March 15, 2021 /EINPresswire.com/ -- Index-linked investment funds offer an attractive balance of risk and reward, especially for small private investors. And with interest rates far below inflation, even the most cautious investors are looking to the stock market for consistent growth.

One of the most popular indices is the S&P 500 index, which tracks American large-cap stocks. The S&P has offered tantalizing rewards recently, with annualized returns between 10% and 30% in most years of the past decade. But can we be sure that this growth will continue throughout the 2020s?

The S&P 500 hasn't always had great returns
Standard and Poor have been publishing indices for almost a century, with the S&P 500 launching in the 1950s. This list tracks the 500 biggest companies by market cap listed on U.S. stock exchanges.

The value of the index has more than doubled since 2011, mostly thanks to the performance of Big Tech firms. Familiar names like Apple, Microsoft, Amazon, Facebook, and Google all sit at the top of the index, and their respective share prices have grown consistently in that time.

Tech firms have played a vital role in the index since the dot-com boom of the late 90s, during which investors saw huge gains. Sadly, the 00s contained some surprise events that would rattle the entire market.

First, the dot-com bubble burst. Shortly after that, 9/11 happened, followed by a period of international political uncertainty. Just as things were beginning to stabilize, we were hit by a global financial collapse. We can see how all of this affected the S&P by looking at some price points from this period:

- Jan 2000 – S&P hits a record of 1441.47
- Jan 2003 – Index falls to 866.43
- Jun 2007 – Index climbs up to 1536.34
- Feb 2009 – S&P plummets to a 12-year low of 770.05

In fact, the S&P did not start to consistently exceed 2000 levels until 2013, more than a decade later. The simple price return for the 00s was an average of roughly -2.5%.

Is the S&P 500 a good investment?
Some investors may have had a shock last March when stock markets plummeted in the wake of the coronavirus. The S&P rallied quickly, and by August, it had reached a new record high. But it's still a wake-up call, especially for risk-averse investors who thought that the index offered some degree of certainty. There's no guarantee that the S&P will keep going up over the next decade.

Which is not to say that the S&P 500 is a bad investment, of course. But it's a bad idea to invest everything in a single fund or index. Smart investors always try to build a varied portfolio that offers financial security while giving you a chance to grow your wealth.

If you're looking to rethink your investment strategy, here are some things to bear in mind:

1. Understand your attitude to risk
Investing always involves trade between risk and reward. The stock market is inherently high-risk—if a company goes bankrupt, you could lose everything. Index-linked investment funds help to spread the risk by buying shares in a range of companies. However, this still doesn't guarantee that you'll see a return.

2. Broaden your investment horizons
The S&P 500 tracks large companies, but that doesn't automatically mean that it generates the largest returns. A diversified investment strategy will look at all opportunities, including small-cap and mid-cap companies. It's also good to look abroad for opportunities in Europe, Asia, and emerging markets.

3. Diversify your holdings
A balanced portfolio will mix high-risk investments, like shares, with low-risk investments, like bonds and securities. Commodities like precious metals can also add some variety to your holdings. Diversity can help protect you against losses—if the stock market tumbles, your securities won't necessarily be affected.

4. Plan for the long-term
The S&P can fluctuate dramatically each day, so you may see a pattern of dramatic gains followed by equally dramatic losses. These short-term variations don't really matter if you

commit to a medium or long-term investment strategy. Focus on the big picture trends rather than day-to-day price movements.

5. Get advice
Good financial advice is the best investment you can make. A good advisor will look at your risk profile and your financial goals, and then they will assemble a profile that's right for you. Not only that, but they will maximize your investment strategy to help avoid the fees and taxes that can eat away at your gains.

If you'd like to put your money in expert hands, contact E1 Asset Management today.

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