COUNTRY Trust Bank®
Special Report: 10 Years After the Crash

December 5, 2017

Troy Frerichs, CFA
Director, Wealth Management & Financial Planning

Jeff Clark, CFA, CFP®
Manager, Investments & Wealth Management

Kent Anderson, CFA
Senior Investment Officer

Andy Finks, CFA
Investment Officer

Todd Bunton, CFA
Investment Officer

Chelsie Moore, CFA, CFP®
Investment Officer

Jonathan Strok, CFA
Investment Analyst

Austin Burant
Investment Associate

Key Points:

- **Despite suffering the worst financial crisis in modern history, the S&P 500® has still delivered a solid average annual return of more than 8% over the last 10 years. This reiterates our belief that successful investing is about *time in* the market rather than *timing* the market.**
- **Avoiding stock market pullbacks is not the key to success for investors, but how they react to those pullbacks often is.**
- **We believe that investors who have a long-term plan and appropriate investment strategy, and the discipline to stick to it, are well-prepared to weather the occasional storms in the financial markets.**

Ten years ago this December, the United States entered into its worst recession since World War II. The stock market started to drop… and drop… and drop. By March 2009, the S&P 500® had plunged a harrowing 57% from its peak in October 2007. Major financial institutions went up in smoke while others teetered on the brink of bankruptcy. Home prices plummeted, leaving millions of Americans underwater. Credit markets froze, and the unemployment rate reached as high as 10%.

Despite suffering the worst financial crisis in modern history, the S&P 500 has still delivered a solid average annual return of more than 8% over the last 10 years. This reiterates our belief that successful investing is about *time in* the market rather than *timing* the market. We believe that investors who have a long-term plan and appropriate investment strategy, and the discipline to stick to it, are well-prepared to weather the occasional storms in the financial markets.

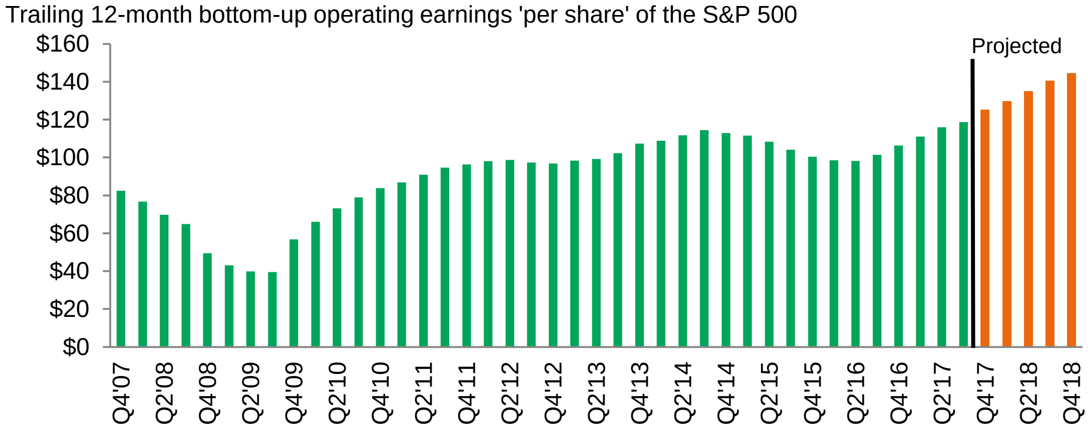
A Speedy Recovery

So what has driven the strong stock market recovery? There are two main factors: how much companies earn, and how much investors are willing to pay for those earnings. Both factors are much higher today than they were during the financial crisis, leading to a speedy recovery in the S&P 500.

The economic recovery coming out of the Great Recession has been frustratingly sluggish, with GDP growth failing to exceed 3% in any year. Nonetheless, corporate profit growth has been surprisingly strong. (Figure 1) Companies necessarily became more efficient during the lean years, and profit margins are currently near all-time highs.

Figure 1

S&P 500 Earnings

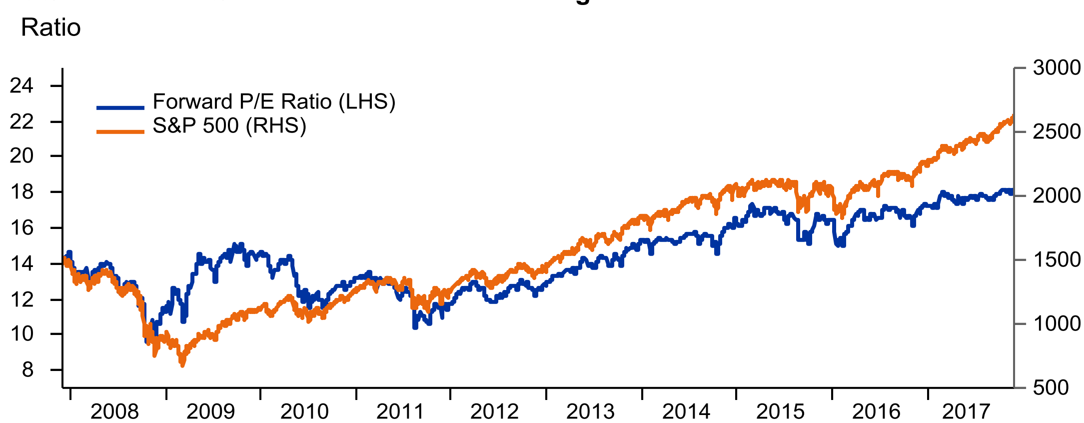


Source: Standard & Poor's

Additionally, there has been considerable expansion in the price-to-earnings multiple, or the amount that investors are willing to pay for a dollar of earnings. (Figure 2) This multiple expansion has been driven by a number of factors, including low interest rates and expected future earnings growth. However, the greatest driver, in our opinion, has been increased optimism among investors since the Great Recession.

Figure 2

S&P 500 Index & the Forward Price-to-Earnings Ratio



Source: Thomson Reuters Datastream

As of 11/23/2017

We caution that we do not expect significant expansion in the P/E ratio from here, which could temper equity returns over the next 5-10 years relative to their historical averages. We also note that there have been some "lost decades" in the history of the U.S. stock market. However, those were typically preceded by long and strong bull markets and often followed by the same, thereby generating very solid longer-term returns.

Don't Bet Against America

When investing for the long-term, it is important to remember that stocks are not just pieces of paper; they represent an ownership interest in a business. And the value of any business is the present value of all earnings or cash flows that the business will earn throughout its life. If the economy continues to grow over the long-run, which we believe it will, then we are confident that aggregate corporate profits, and thus business values, will continue to grow long-term too.

While the American economy may have its share of problems, it has not been profitable to bet against it in the long run. As famed investor Warren Buffett recently said, *"It has been 241 years since Thomas Jefferson wrote the Declaration of Independence. Being short America has been a loser's game. I predict to you it will continue to be a loser's game."*

We do not know when the next major correction in the stock market is coming, and we do not waste much energy trying to forecast it. We do know, however, that the market has recovered from 100% of its pullbacks. And while the year-to-year returns in the stock market are notoriously volatile and largely driven by investor sentiment, long-term returns have been quite stable. (Figure 3)

Figure 3

	Annualized Total Returns* Over the Last:				
	10 yrs	**20 yrs**	**30 yrs**	**40 yrs**	**50 yrs**
S&P 500	8.1%	7.1%	10.5%	11.7%	10.1%

**with dividends reinvested, excluding any fees*

Source: Robert Shiller, www.dqydj.com as of November 30, 2017

Avoiding stock market pullbacks is not the key to success for investors, but how they react to those pullbacks often is. Whether the market is rallying or crashing, it is vital to stay focused on the long-term. Investors who take a disciplined, systematic approach to rebalancing their portfolios, for instance, can actually take advantage of periodic market pullbacks by buying more shares when securities are "on sale". Having a plan and an appropriate investment strategy based on that plan can help investors weather the ups and downs of the market over time.

We suggest that investors avoid the temptation of market timing. Timing the markets requires you to be right on both the way out and the way in. The very few investors who were able to avoid most of the 2008 crash by moving out of equities probably took too long to get back into the market, with some likely still sitting on the sidelines today. We also note that many of the "doom and gloom" folks who predicted the financial crisis have also called for similar crashes every year since then, even as the market has recovered with a vengeance. As we have written before, in all of our years of professional investing, we have yet to meet a consistently-successful market timer.

Summary

It has now been a decade since the start of the financial crisis and Great Recession. Equity investors who had the discipline to ride it out have been rewarded, as is often the case during market pullbacks. High volatility, including risk of loss, is a reality when investing in the stock market. We believe that investors who have a long-term plan and appropriate investment strategy are best prepared to weather the occasional storms in the financial markets.

Definitions

The S&P 500® Index is an unmanaged index that contains securities typically selected by growth managers as being representative of the U.S. stock market. Returns do not include fees and expenses associated with investing insecurities. It is not possible to invest directly in an index.

The price-to-earnings ratio is a valuation ratio which compares a company's current share price with its earnings per share (EPS). EPS is usually from the last four quarters (trailing P/E), but sometimes it can be derived from the estimates of earnings expected in the next four quarters (projected or forward P/E). The ratio is also sometimes known as "price multiple" or "earnings multiple."

Chart data comes from Thomson Reuters Datastream, a powerful platform that integrates top-down macroeconomic research and bottom-up fundamental analysis.

Important Information

Not FDIC Insured

No Bank Guarantee
May Lose Value

Investment management, retirement, trust and planning services provided by COUNTRY Trust Bank®.

All information is as of the report date unless otherwise noted.

Past performance does not guarantee future results. All investing involves risk, including risk of loss.

This material is provided for informational purposes only and should not be used or construed as investment advice or a recommendation of any security, sector, or investment strategy. All views expressed are based on the information available at the time of writing, do not provide a complete analysis of every material fact, and may change based on market or other conditions. Statements of fact are from sources considered reliable, but no representation or warranty is made as to their completeness or accuracy. Unless otherwise noted, the analysis and opinions provided are those of the COUNTRY Trust Bank investment team identified above and not necessarily those of COUNTRY Trust Bank or its affiliates.

Stocks of small-capitalization companies involve substantial risk. These stocks historically have experienced greater price volatility than stocks of larger companies, and they may be expected to do so in the future.

Stocks of mid-capitalization companies may be slightly less volatile than those of small-capitalization companies but still involve substantial risk and they may be subject to more abrupt or erratic movements than large capitalization companies.

International investing involves risks not typically associated with domestic investing, including risks of adverse currency fluctuations, potential political and economic instability, different accounting standards, limited liquidity and volatile prices.

Fixed income securities are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Investments in lower-rated and nonrated securities present a greater risk of loss to principal and interest than higher-rated securities.

Diversification, asset allocation and rebalancing do not assure a profit or guarantee against loss.

All indexes are unmanaged and returns do not include fees and expenses associated with investing insecurities. It is not possible to invest directly in an index.