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Last month stocks delivered their best monthly return since 1987 with the S&P 500 rising 13%. Stocks have built on these gains marginally in May, pushing the index up 34% from its March low and down less than 9% for the year. Keep in mind this comes on the heels of a 31.5% return in 2019. So, is it safe to say the longest bull market in history has officially been followed by the shortest bear market in history, and we are once again off to the races? Maybe, but ultimately only time will tell.

The recovery is no doubt breathtaking, even to those with the poise to have bought shares when the days looked the darkest. Never before have we seen an economic catastrophe of this magnitude – nor the scale of government intervention – in such a short period of time to stem the Covid-19 impact on the U.S. economy. While these past two months have been truly extraordinary, in many ways, from a financial markets perspective, what we just went through is not unprecedented.

One could argue the credit crisis of 2008 prepared us well to handle this calamity as many of the same programs enacted by the Federal Reserve during that period were utilized. However, whereas these programs took weeks or months to implement previously, they were put into action within days this time around. These decisive actions have emboldened investors by creating confidence we will emerge from this pandemic with minimal long-term detrimental impacts.

The extreme market volatility over the past two months should serve as a reminder as to how perilous timing the stock market can be. Many investors were convinced just a couple of weeks ago that we were headed into a second Great Depression and the 20-30% drop was only the beginning. These same investors are now left perplexed with what to do as stocks have rallied sharply amid strong policy support from the Fed and growing optimism over the economy reopening. Of course, this enthusiasm could be short lived should the reopening cause a second wave of infections that result in another round of social distancing guidelines put forth by various states. Again, only time will tell.

Ray Dalio, the founder of Bridgewater – one of the most successful hedge funds in history – was recently quoted in a Market Watch interview where he said, “The greatest mistake of all investors is to think that what has done well lately is a better investment rather than more expensive. And what has done worse lately is the worst investment — get me out of it! — rather than it’s cheap.”

We echo his thoughts and wanted to highlight this statement because it perfectly captures how we are managing your investments. As the markets dipped last month, we rebalanced accounts outside of their target thresholds by selling bonds and buying stocks. This disciplined approach in both bull and bear markets has been a hallmark of our investment strategy for decades and over the years proven to be very beneficial.

We want to close this update with a reminder to investors that as stocks move **higher**, they become **riskier**. As stocks move **lower**, they become **less risky**. We recognize how difficult this statement can be to accept during periods of extreme volatility, despite how obvious it may be when conditions are calm. Those who recognize this fundamental principle of investing thereby understand why diversification is so important in a bull market and patience is crucial in a bear market. Historically stocks have been one of – if not the – best generators of wealth over time, but this above-average risk versus reward tradeoff is the price an investor must pay in order to capture the long-term benefit that is measured in years, not days or weeks. Therefore, if market volatility picks back up in the coming months, the best thing to do is heed this advice and stay the course.

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