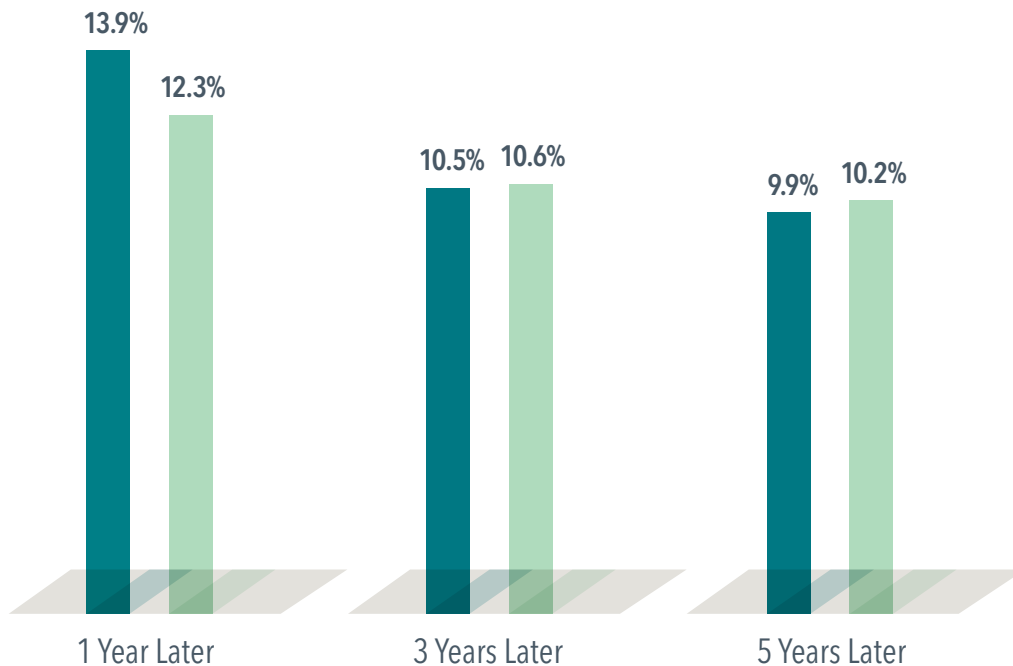# Why a Stock Peak Isn't a Cliff

S&P 500 INDEX RETURNS, *1926–2020*

Average Annualized Compound Returns

▮ After months that ended at a record ▮ After months that ended at any level

	1 Year Later	3 Years Later	5 Years Later
After months that ended at a record	13.9%	10.5%	9.9%
After months that ended at any level	12.3%	10.6%	10.2%

Many investors may think a market high is a signal stocks are overvalued or have reached a ceiling. However, they may be surprised to find that the average returns one, three, and five years after a new month-end market high are similar to the average returns over any one-, three-, or five-year period.

- In looking at all monthly closing levels between 1926 and 2020 for the S&P 500 Index, 30% of the monthly observations were new highs.

- After those highs, the average annualized compound returns ranged from nearly 14% one year later to just under 10% five years later. Those results were close to average returns over any given period of the same length.

Reaching a new high doesn't mean the market will retreat. Stocks are priced to deliver a positive expected return for investors, so reaching record highs regularly is the outcome one would expect.

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