

Capital Chronicles

The opportunity in uncertainty

Last month, we explored the differences in stock market returns across countries from 2006 to 2025. The changing fortunes of the best and worst performers highlighted how difficult it is to predict which country will lead next. For investors, that uncertainty can feel uncomfortable. But how we interpret it matters.

There’s a memorable exchange in Apollo 13 that captures this shift in perspective. As NASA struggles to bring its astronauts safely home, a director warns, “This could be the worst disaster NASA’s ever experienced.” Flight director Gene Kranz replies, “With all due respect, sir, I believe this is gonna be our finest hour.” His response recognises the possibility of achievement within a moment of profound uncertainty.

Investors can benefit from a similar change in perspective. Uncertainty about politics, economic growth, or market performance often draws our attention to what could go wrong. Yet bearing uncertainty also helps explain why stocks offer higher expected long-term returns than safer assets. Investors accept the possibility of losses in pursuit of that additional return, known as the equity premium. For many people building retirement savings, it can make a meaningful difference over time.

Of course, higher expected returns are never guaranteed. This makes the lesson from last month’s country comparisons particularly useful: the difficulty of predicting winners gives us a reason to diversify across markets. A portfolio suited to our goals, time horizon, and ability to withstand losses can help us stay invested through difficult periods.

Accepting uncertainty is part of the path toward building wealth. The challenge is learning to live with it and more importantly building a portfolio that allows you to do so.

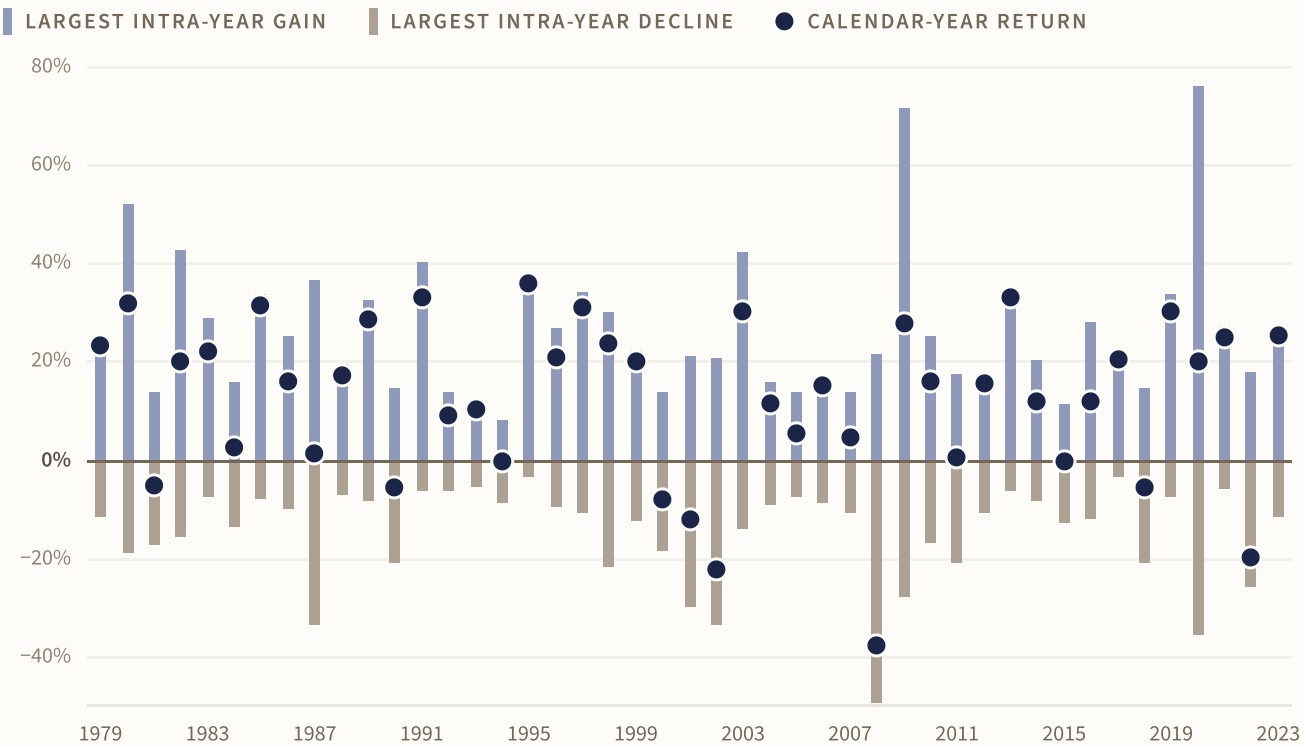
~15% AVERAGE INTRA-YEAR DECLINE

The typical largest drop US stocks experienced within a single year since 1979. Even so, the market finished the year higher in most years — the reward for sitting through the uncertainty.

EXHIBIT

The ups and downs inside every year

For each year since 1979, the largest gain and largest decline US stocks saw within the year, with the dot marking where the year actually finished.



Source: Dimensional Fund Advisors. US stock market, 1979–2023. Largest intra-year gain is the largest rise from trough to peak during the year; largest intra-year decline is the largest fall from peak to trough. Past performance does not predict future returns.

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As always, the plan is the strategy.

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