

On The Mark

Special Edition

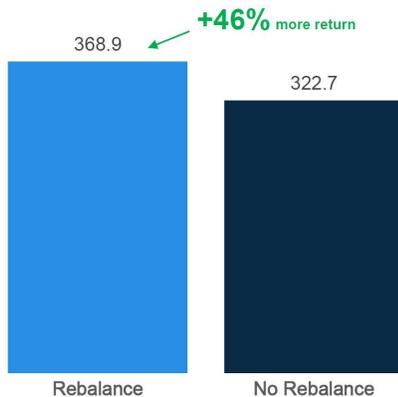
3 Actions to Consider When Volatility Strikes

When volatility strikes and stock markets decline, it can rattle even the most experienced investors. As behavioral science tells us, the pain of an investment loss is felt more keenly than the enjoyment of an investment gain. The urge to soothe the sting of short-term losses can lead to hasty decision-making that could be costly in the long run. Staying invested and focusing on the things you can control may be your best bet during challenging markets. Here are three actions you can consider in the short term to enhance your long-term investment approach.

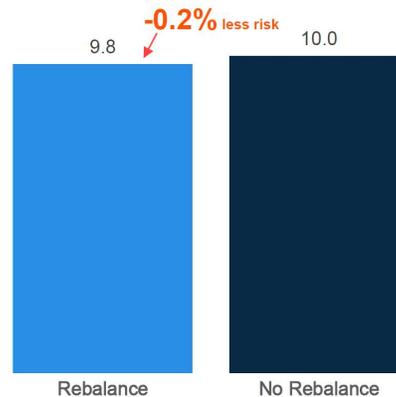
1. Rebalance

Stocks tend to outperform bonds over the long run which can push a portfolio's stock and bond ranges out of bounds. When markets get choppy, it can be a great time to review your portfolio and see if it needs rebalancing. This is also one of the best tools an investor can use to try to "buy low and sell high" in a disciplined way without running the risk of trying to time markets. The practice of rebalancing entails trimming portfolio positions that have outperformed and reinvesting the proceeds into areas that have underperformed. In the chart below, we show that over the long term, a portfolio that is rebalanced annually (light blue bar) can experience better performance and maintain risk than a portfolio that is not rebalanced (dark blue bar).

Rebalancing Impact on Return
(Cumulative %)



Rebalancing Impact on Risk
(Standard Deviation %)



Source: AssetMark Investment Management. Data from Bloomberg (Global 60/40, 1992-2022). Left chart shows the cumulative return difference over the period for an annually rebalanced portfolio compared to a not rebalanced portfolio.

Standard deviation is a statistical measure of the volatility of the security or portfolio's returns. The larger the standard deviation, the greater the volatility of return.

2. Lean in

Opportunities can be found in most market cycles, down markets included. In the chart below (on the left), you can see that returns often rise in the one-year, three-year, and five-year periods following a bear market, particularly if you're not [confronting a severe recession](#) such as the 2007-2008 Financial Crisis. Furthermore, leaning in during a drawdown by increasing stock positions may make sense for investors with longer time horizons. In the chart below

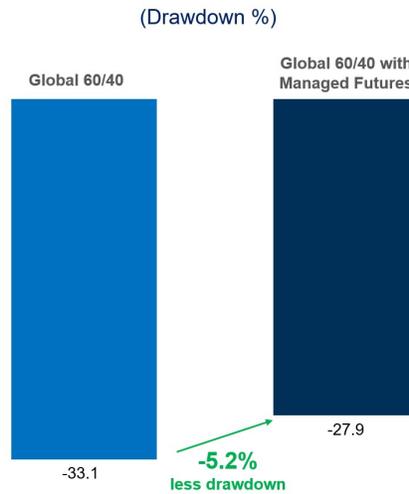
(on the right), you can see that increasing the stock allocation of a 60% Equities/40% Fixed Income portfolio by ten percent boosted returns.



Source: AssetMark Investment Management. Left chart: Data from Ibbotson (US equity and fixed income) cumulative returns from 1949-2020. Right chart: Data from Bloomberg. 60/40 portfolio cumulative returns for 20-year period ending 06/30/2022 with 10% equity allocation added in the event of a cyclical recession, held for one year after 20% equity market drawdown.

3. Diversify

For suitable investors thinking about pulling out of the market and moving to cash during a market decline, consider shifting to diversifying positions instead. Diversifying positions (or alternative investments) typically have better long-term return expectations than cash and can provide valuable diversification benefits. One such example is managed futures, an equity alternative investment style that can buy and sell stocks, bonds, currencies, and commodities. Unlike traditional stock and bond investments, managed futures can take advantage of negative market trends by selling investments in a variety of different asset classes and providing potential positive returns during declines while improving diversification. Adding alternative investments like managed futures will not eliminate negative returns for portfolios but can potentially reduce losses. For example, in the chart below, adding a 10% allocation to managed futures can lessen the impact of a drawdown by 5.2%.



Source: AssetMark Investment Management. Data from Bloomberg. Global 60/40 over 25 years (ending 06/30/2022). Stocks represented by S&P 500. Bonds represented by Bloomberg US Aggregate. Managed futures represented by Credit Suisse Managed Futures Liquid Index. For illustrative purposes only.

Portfolio losses are painful for everyone; however, market drawdowns can provide opportunities to strengthen portfolios by rebalancing (all investors), leaning in (aggressive investors or those with longer time horizons), and diversifying (all investors, particularly nervous investors). Alternative investments are speculative and involve a high degree of risk and those investors who cannot afford to lose their entire investment should not invest. Additionally, investors may receive illiquid and or restricted securities that may be subject to holding period requirements and/or liquidity concerns. Some alternative investments are highly illiquid and those investors who cannot hold an investment for the long term (at least 5-7 years) should not invest.

Data in this report is obtained from sources which we believe to be reliable, but we do not warrant or guarantee the timelines or accuracy of this information. Individual investor portfolios must be constructed based on the individual's financial resources, investment goals, risk tolerance, investment time horizon, tax situation and other relevant factors. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss. Investments through PKS or Summit Financial, LLC are not FDIC insured, not bank guaranteed, may lose value, including loss of principal, not insured by any state or federal agency.

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The Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market.

The S&P 500 Index is a market-capitalization-weighted index of the 500 largest publicly-traded companies in the U.S. It is not an exact list of the top 500 U.S. companies by market capitalization because there are other criteria to be included in the index. The index is widely regarded as the best gauge of large-cap U.S. equities. Investors cannot directly purchase an index.

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