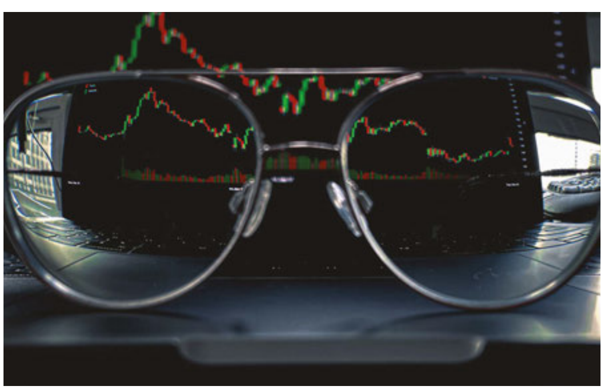
INVESTMENT INSIGHTS

Analysis, Insights, and a Different Perspective May 2023

KEY POINTS

- **IGNORE SHORT-TERM NOISE:** Avoid knee-jerk reactions to short-term market fluctuations and focus on long-term trends.
- **UNDERSTAND MARKET CYCLICALITY:** Both strong and weak market trends are part of the long-term investment journey.
- **BE CONSISTENT:** Utilize strategies like dollar cost averaging to reduce risk and maintain a balanced approach to investing.
- **REBALANCE:** Periodically adjust your portfolio to align with your original investment plan and risk tolerance.
- **TAKE A LONG-TERM VIEW:** Keep in mind the importance of a long-term time horizon, as markets historically reward investors who maintain a longer-term perspective.



5 STRATEGIES FOR NAVIGATING MARKET VOLATILITY

In the November 2021 edition of Investment Insights, *Time To Prepare For Market Volatility*, we advised investors to get ready for a potential increase in market volatility. As market volatility increased in 2022, we provided a broad view of that volatility in July's edition, *Market Volatility in Perspective*. This year, markets have partially recovered but are still away from their historical levels. Expanding on our previous conversations, this edition of Investment Insights aims to provide investors with insights into navigating down markets.

IGNORE SHORT-TERM NOISE

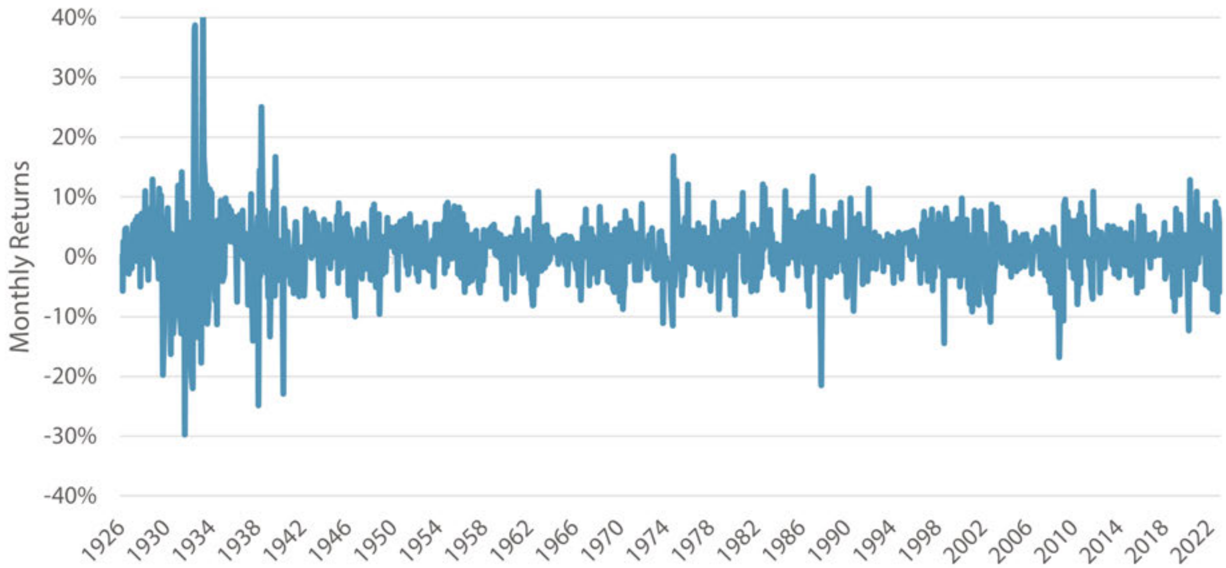
Before discussing long-term market trends, it is essential to remember that predicting short-term market trends is often a fool's errand. Many investors tend to extrapolate recent performance into the future. Reacting to short-term volatility can often be futile, as many short-term investment returns can best be described as random in nature.

The following chart shows the monthly stock returns since 1926. As you can see, investors try to drive returns in reaction to market noise in the short term, which seems random and unpredictable. Investors may be well served by avoiding knee-jerk reactions to short-term market fluctuations. Remember that historically, a bulk of major market rallies occur in a limited number of days, so being wrong even for a relatively small number of days can prove costly in the long run.[1]

Cornerstone
WEALTH MANAGEMENT LLC
A Registered Investment Advisor

1 Guide to Retirement 2023 by J.P. Morgan Asset Management

SHORT-TERM PERSPECTIVE: TOTAL RETURN FOR AN INVESTMENT IN U.S. STOCKS, TRACKED BY PERCENTAGE EACH MONTH



Source: Morningstar as of 4/3/2023. U.S. stocks represented by the IA SBBI US Lrg Cap Index from 1926 to 2/2023.

UNDERSTAND MARKET CYCLICALITY

As most investors gain experience, they are often best served by ignoring the relatively random day-to-day market fluctuations. While ignoring short-term noise is a good rule of thumb for most investors, the same cannot be said about long-term market trends. Instead, understanding that markets typically work in cycles can help investors avoid making mistakes.

It is important to remember that the stock market experiences both good and challenging markets. As you can see in the table below, the U.S. stock market has been in a severe correction or a bear market once every 3-6 years on average. Note that these are averages, and markets can go years without declines, and declines can occur more frequently. Some seasoned investors experienced more than a decade of relatively strong markets, followed by two bear markets in 2020 and 2022. Without a historical perspective, some individuals may expect the stock market to experience a decline of 20% regularly, which has historically not been the case. Understanding the market's cyclical nature can help investors realize that the long-term investment journey typically includes both strong and weak market trends.

Stock Market Declines – Standard & Poor's 500 Composite Index (1951–2021)				
Size of decline	DIP (–5% or more)	Correction (–10% or more)	Severe Correction (–15% or more)	Bear Market (–20% or more)
Average frequency	About three times per year	About once per year	About once every three years	About once every six years

Assumes 50% recovery of lost value. Source: Capital Group, Standard & Poor's.

BE CONSISTENT

If investing was only about numbers, most investors would do well by investing the entire amount their financial plan calls for all at once because, historically, markets have gone up more than they have gone down. However, investing is not just about returns; things like risk appetite and psychological preferences also play a crucial role.

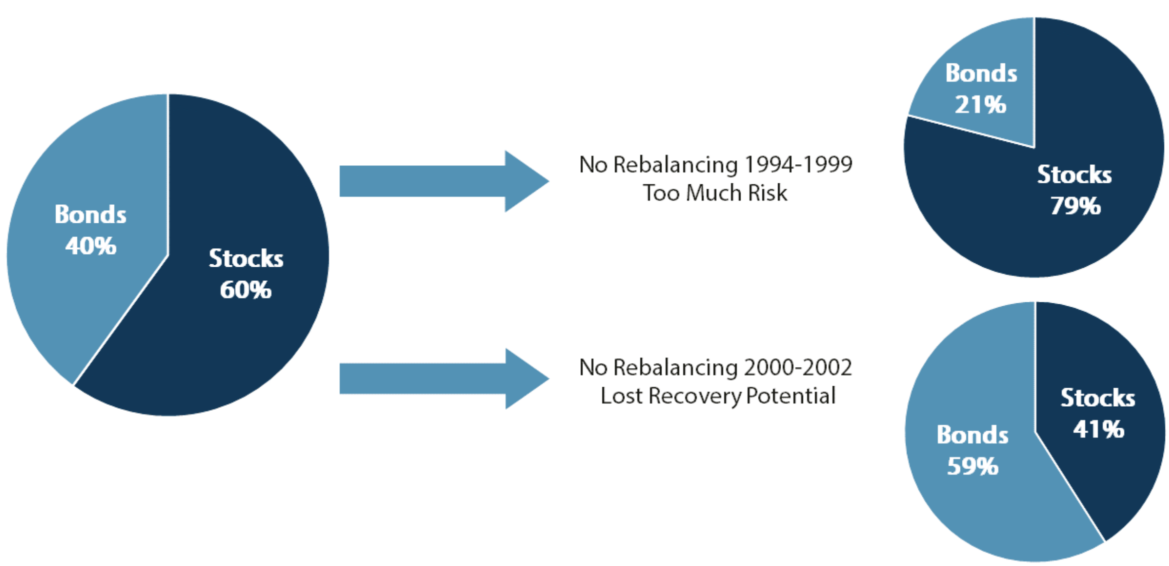
Investing a fixed amount over time, or dollar cost averaging (DCA), can allow investors the potential to reduce risk. Research from professors David Cho and Emre Kuvvet at Nova Southeastern University found that dollar cost averaging offers the possibility to lower risk and thus may be suitable for risk-averse investors.[2] DCA can be a particularly useful strategy in a challenging market, as research has found evidence that investor risk tolerance typically lowers when the stock market declines.[3]

REBALANCE

Try recalling the first day of your investment journey. Perhaps you and your advisor discussed your investment experience, financial goals, time horizon, risk tolerance, and income or liquidity needs. Based on your financial situation, your advisor recommended an asset allocation that matched your risk tolerance. As time passed, the original allocation changed based on market returns. Over time, and especially during volatile markets, these changes can compound, and your portfolio may no longer align with your investment objectives or risk tolerance.

Consider the following hypothetical example. In an up market, a 60% stock and 40% bond portfolio in 1994 without rebalancing would become a 79% stock and 21% bond portfolio by 1999. Similarly, in a down market, the same 60% stock and 40% bond portfolio in 2000 would become 41% stock and 59% bond by 2002. In both cases, the portfolio likely drifted outside of the investor's risk tolerance. Rebalancing can help return your portfolio to its intended allocation and risk tolerance based on your original investment plan.

THE IMPORTANCE OF PORTFOLIO REBALANCING



Source: S&P, Ibbotson, stocks returns S&P 500 assume reinvestment of dividends, S&P is an unmanaged index, doesn't include expenses. Bonds: Barclays Aggregated Bond Index. Past performance may not be an indication of future results. Rebalancing does not ensure a profit or protect against a loss and may result in taxable consequences.

---

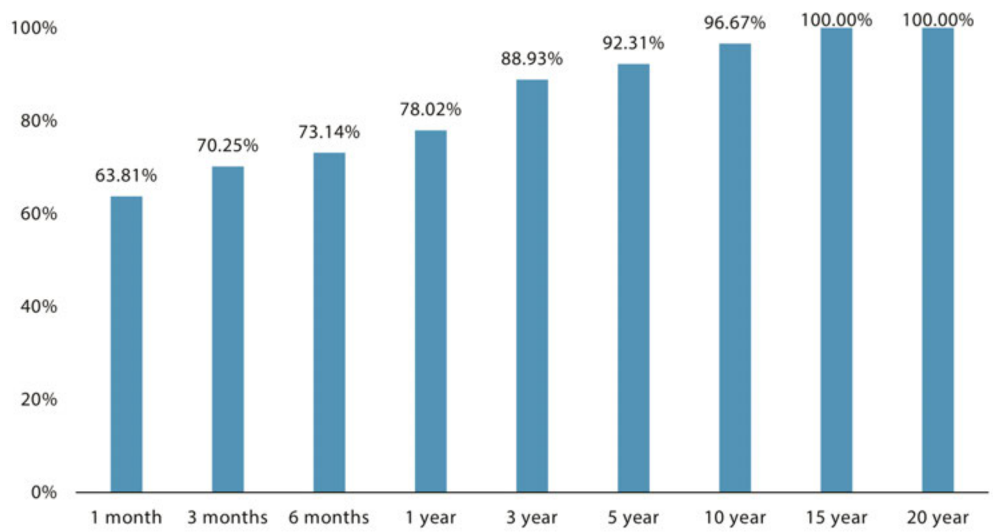
2 Loury, Kirk, et al. "Dollar-Cost Averaging: The Trade-Off Between Risk and Return." *Financial Planning Association*, 1 Oct. 2015.
3 Herzberg, Philip, et al. "Do Large Swings in Equity Values Change Risk Tolerance?" *Financial Planning Association*, 1 June 2014.

TAKE A LONG-TERM VIEW

Finally, perhaps the most important consideration for investors is time horizon. Markets have historically rewarded investors who have more time to be invested in the market. As reflected below, as the length of the time increases, so does the equity return's chance to be positive.

This doesn't mean an investor won't have the chance to encounter relatively long periods of negative returns. Over the past 70 years, roughly 2% of the time, investors have experienced negative returns even after investing for 10 years. What investors experience over the next 70 years may be better or worse than the past 70 years, but based on history, it can be helpful to expect at least the same amount of volatility as in the past. That means lifelong investors should expect at least some long 10-15 year stretches of negative stock market returns throughout their investing journey.

PERCENT OF PERCENT OF TIME STOCKS EARNED A POSITIVE RETURN
S&P 500, 3/1951-3/2023



Calculated using S&P 500.
For illustrative purposes only.
Index is not available for direct investment; therefore, its performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

PREPARE WITH A PLAN

Ignoring short-term noise, understanding market trends, being consistent, rebalancing your portfolio, and focusing on a long-term view will enhance your ability to navigate down markets and ultimately contribute to your investment success. Integrating these principles into your comprehensive financial plan can assist you in staying on track and pursuing your financial objectives. Your advisor can help customize your plan according to your individual needs.
To develop or revisit your financial plan, contact your financial advisor today.