

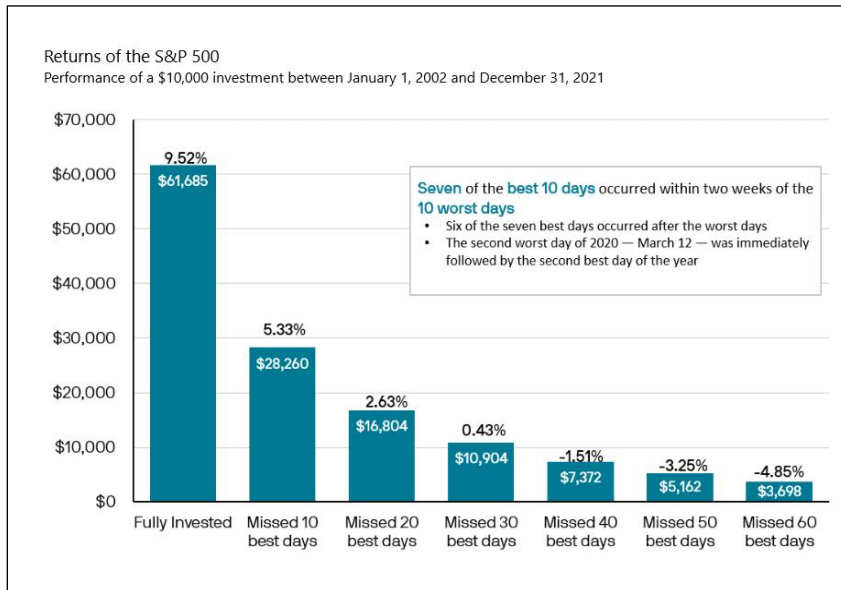


The Investor’s Guide to Volatile Markets: 3 Key Themes

1. Endurance – Why Staying the Course Makes a Difference

“Our favorite holding period is forever.” – Warren Buffet.

Mr. Buffet is arguably, one of the most successful investors in recent history who notably applies a ‘buy and hold’ strategy to his investment process. What we can learn from the ‘Oracle of Omaha’ as he is famously titled, is that one of the most fundamental concepts of long-term investing is ‘staying the course.’ Therefore, it is important to choose an investment option that is consistent with your goals and apply a bit of endurance even when markets travel in undesirable directions. Naturally, the sight of a severe market downturn such as the one experienced in 2022 will raise questions around changing your investment option or making withdrawals and holding cash instead. However, it is important to recognize that both courses of action greatly increase your risk of realizing a significant loss while markets are down and locking yourself into a new investment option with a lower long-term expected return. Coupled with additional transaction costs, this may extend the time horizon needed to recover your portfolio’s realized loss and further erode your average return over the long term.



Timing the market is notoriously difficult and puts your portfolio at risk of missing some of the best performing periods in the market. According to J.P. Morgan Asset Management's Guide to Retirement 2022, a person who invested \$10,000 in the S&P 500 index in January 2002 and stayed invested for 20 years until December 2021 would have \$61,685 at the end of that period (this translates to an average annualized return of 9.5% or a cumulative gain of 516.8%). A person who missed only 10 of the best days of market performance would

have just \$28,260 at the end of the same period (this translates to a much lower average annualized return of 5.3% or a cumulative gain of 282.6%). The underlying point here is that volatility is common and to be expected but remaining invested through volatile times has historically proven to reward the patient investor. Hang in there and focus on your long-term goals.

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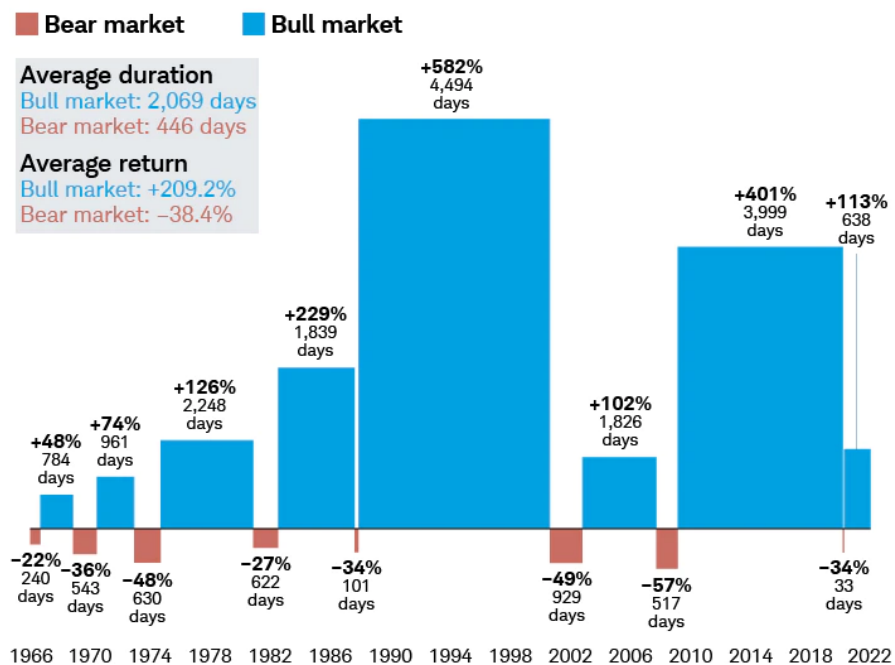
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2. Perspective – Looking at the Broader Picture

While this may sound cliché, a close look at the broader picture can often provide refreshing perspective that helps form a more comprehensive understanding of the relationship between the market and your investment portfolio. Let's pretend for a moment that the ocean represents the market and its never-ending ups and downs. Now briefly picture yourself on the lower deck of a cruise ship, gazing at the sea through a tiny porthole. In this analogy, your view may capture a very limited window of the market's 'waves' and excludes much of what you could see throughout your journey toward retirement.

Past bear markets have tended to be shorter than bull markets



Source: Schwab Center for Financial Research with data provided by Bloomberg as of 12/31/2021.

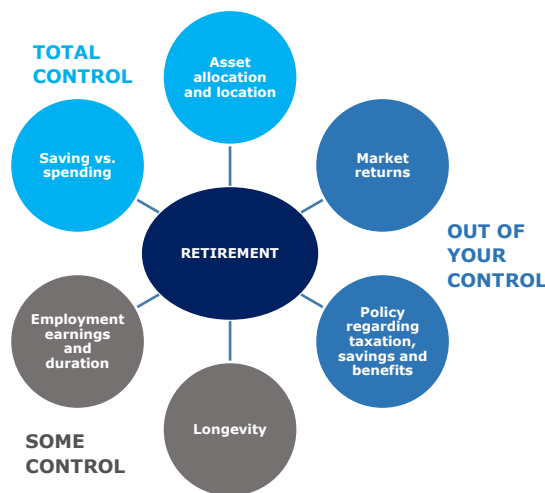
officially began on June 13th, 2022, or 163 days ago as of November 23rd, 2022). However, bearing in mind that a 10-year time horizon consists of 3,652 days, we can acknowledge the fact that the present-day 'window' is not reflective of a complete time horizon. While stock markets will go up and down at times, the historical performance of stocks is largely positive over the long-term.

While this may be all you can see at the moment, let's remember markets spend far more time producing positive returns than negative ones over the long term. Market return data from Bloomberg over the past 50 years show that the average duration of a market downturn (446 days) is much shorter than the average up-market (2,069 days). Further, while the average decline experienced during a down market is around -38.4%, the average gain of an up market is over 200%. Unfortunately, we cannot predict how long the current downturn will last and it is likely that markets will remain volatile for some time (the current bear market



3. Your Responsibility – Focus on Your Strengths

For many investors, common feelings during market downturns include anxiety about market performance and a loss of control. The bad news is that you have no control over market returns and will be subject to extended periods of volatility such as the downturn experienced in 2022. On the plus side, there are a few areas where you have complete or partial control of your financial outcomes. For that reason, we recommend focusing on the areas of your finances that you can materially influence, as these will have a much greater impact on your financial position in the long run:



Although 2022 market returns for most assets (including bonds) have been negative, it is important to remember that investment performance is relative in many cases. The fact that you have total control over your asset allocation as an investor offers the advantage of playing a bit of defense when markets experience unexpected volatility, or playing offense when markets rebound to the upside. For someone who is retired or approaching retirement, this helps guard your portfolio against the risk of a more severe drawdown at a time when making withdrawals from your portfolio is unavoidable. For someone with a longer time horizon, the increase in expected long-term returns improves the probability of meeting your financial objectives at and during retirement. Whether your time horizon is 2 years or 30 years away, the most critical factor in your investment decision is your asset allocation.

Market Returns by Risk Profile

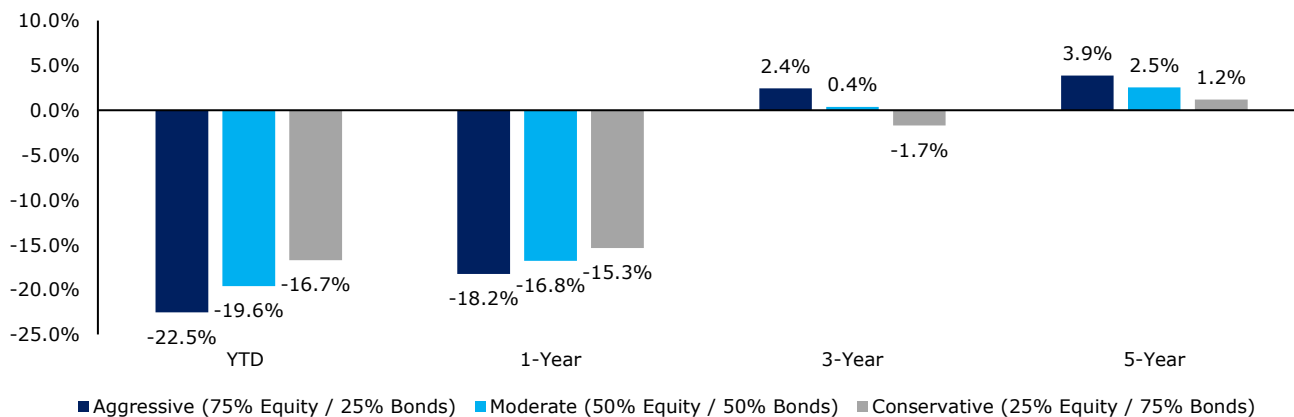


Figure 1 - A simplified two-asset portfolio consisting of the Vanguard Global Stock Index Fund and Vanguard Global Bond Index Fund is used to calculate returns as of September 30, 2022 for each asset allocation.

November 2022



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