WINTHROP WEALTH

OCTOBER 2021 CLIENT QUESTION: HOW OFTEN DOES THE STOCK MARKET DECLINE?

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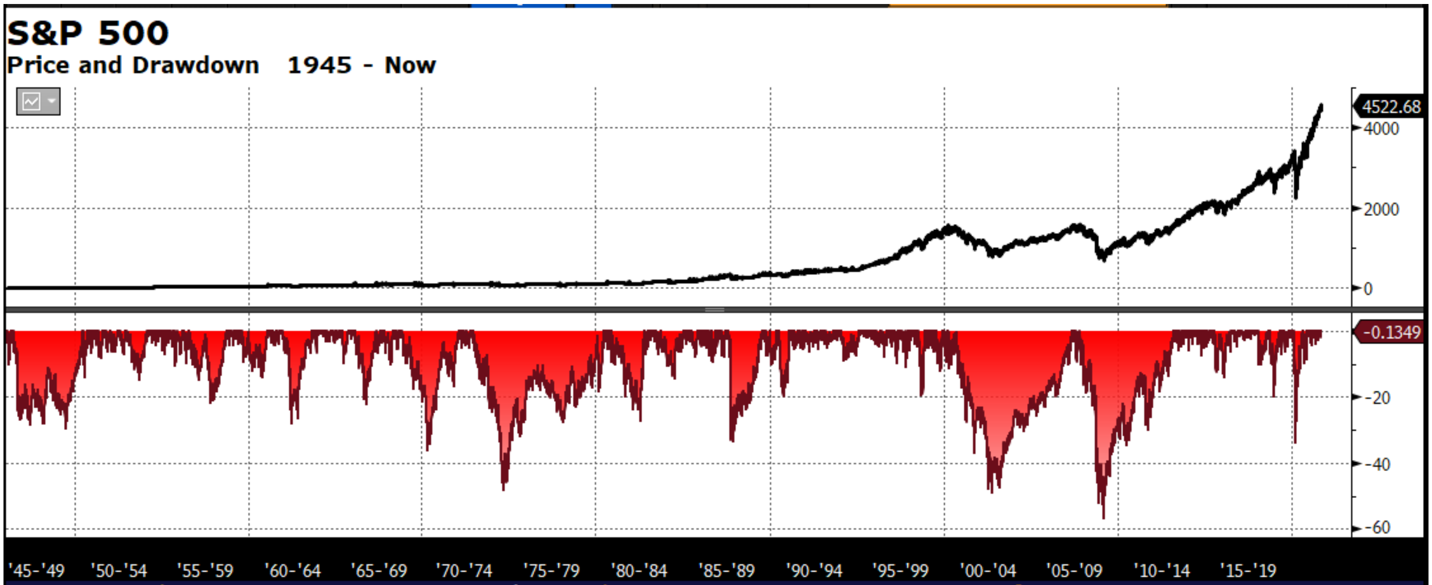
The S&P 500 is already up +21.6% for the year with very little volatility (as of August 31, 2021). In fact, the S&P has gone over two hundred trading days without experiencing a-5% decline, which is one of the ten longest stretches on record. We know that stocks do not move in a straight line forever and that upcoming volatility is inevitable. As we have written many times, no one can consistently forecast precisely when the market will decline. As such, we do not believe in making major changes to portfolios (i.e. market timing) in anticipation of potential upcoming volatility as that can be a futile effort (please see our **Client Question on Why Market Timing Does Not Work**). Rather than make wholesale changes, our investment process favors trimming on strength, buying on weakness, and tilting toward the asset classes we think will provide better risk/reward going forward.

Given that the last several months have been exceptional in terms of limited volatility, we thought it would be helpful to provide data on how often the market experiences declines. The following chart displays the S&P 500's price and drawdowns since 1945, and the table shows how often the market has declined more than-5% over this period. Despite 125 declines of more than-5%, the S&P 500 generated a total annualized return of +11.4% over this time. A $10,000 investment in 1945 would have increased to over $47,000,000 at the end of the period.



Decline %	Number of Declines	Average Decline %	Average Length of Decline (Months)	Average Time to Recover (Months)
5% to 10%	84	-7%	1	1
10% to 20%	29	-14%	4	4
20% to 40%	9	-28%	11	14
+40%	3	-51%	23	58

January 1, 1945 to August 30, 2021. Source: Bloomberg, Ned Davis Research, Inc.

A key pillar to our investment philosophy is to a maintain a long-term viewpoint as we know that markets can be quite volatile over the short-term. The stock market has historically gone up over time, but returns are not linear. Thus, while market declines are common and they can certainly be uncomfortable, we do our best to make lemonade out of lemons by utilizing these periods as an opportunity to make beneficial changes to portfolios. We do so by having the experience and technological systems in place to efficiently tax-loss harvest and reposition portfolios.

• **Tax-loss Harvesting**: Tax-loss harvesting is achieved by selling an investment with a loss and immediately purchasing a different security with similar (but not identical) exposure. The loss on the sold security can be used to offset taxable gains. Since we simultaneously sell a security to capture a loss and purchase a different holding with similar exposure, the client is never out of the market. We can capture losses during declines, and as the market recovers the new position also recovers PLUS the client has a tax-loss to offset future gains. Please see our **Client Question on Tax Loss Harvesting**.

• **Repositioning Portfolios**: Repositioning portfolios means that we can increase the overall equity allocation and/or we can reallocate among various asset classes. During a market selloff, portfolio equity allocations often fall below their target levels. For example, assume a portfolio is invested to its target allocation of 60% equities and then the stock market declines -10%. The new allocation would be about 54% or -6% below the target level. We can use the market decline as an opportunity to buy stocks at lower prices to bring the allocation back to the 60% target level. Furthermore, we can rotate to the equity asset classes that have become more attractive (for equities, we allocate across regions, countries, market caps, factors, styles, sectors, and industries). Keep in mind, some of the best buying opportunities occur during periods of market turmoil.

At Winthrop Wealth, our tag line is “with you for life.” For many of our clients, we are working with multiple generations, and our goal is to be a trusted resource for all their major life events. If a client takes a new job, starts a business, sells a business, retires, or starts a family we strive to be one of their first calls. If markets only went up and rules and regulations stayed static, the world wouldn’t need advisors, portfolio managers, or consultants. However, we know this is not the case. We believe we can make the biggest difference for our clients when things get challenging, when markets are volatile, and when the environment is changing (life events, new tax rules, new regulations, etc.). By having an experienced and credentialed team and a thorough understanding of our clients, their financial plans, and their investment portfolios, we can provide proactive and customized solutions that better fit their unique circumstances.

We apply a total net worth approach to both comprehensive financial planning and investment management. Financial planning drives the investment strategy and provides a roadmap to each client’s unique goals and objectives. The comprehensive financial plan defines cash flow needs, is stress tested for various market environments, optimizes account structures, considers tax minimization strategies, and continuously evaluates financial risks as circumstances and/or goals change. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection.

DISCLOSURES: