DECEMBER 2020 CLIENT QUESTION OF THE MONTH: FAVORITE CHARTS OF 2020

ANDREW MURPHY, CFA
Senior Director, Portfolio Management

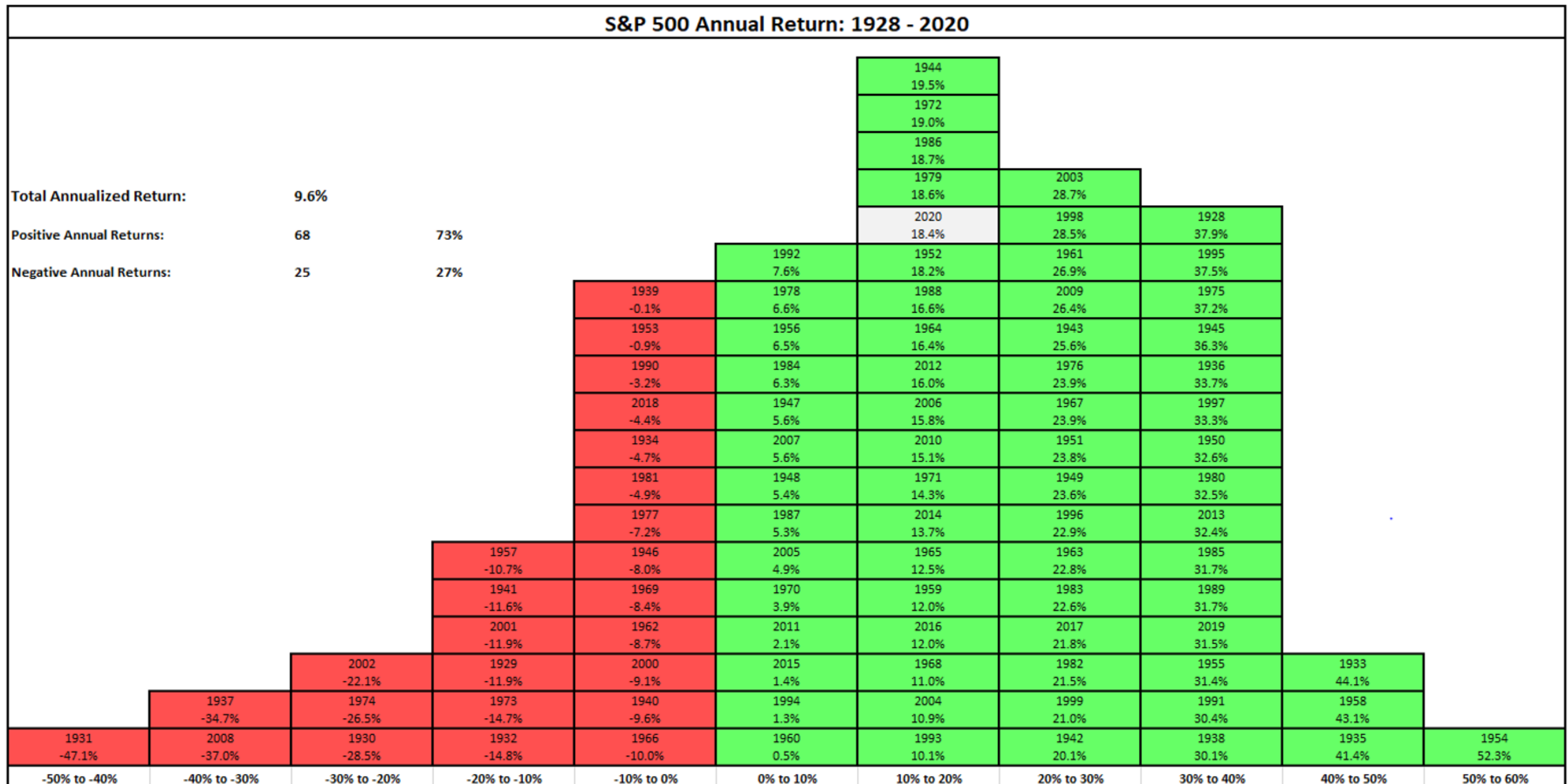
For our December Client Question of the Month, we thought it would be helpful to update some of our favorite charts that put the year in context and reinforce our investment philosophy. At Winthrop Wealth, we apply a total net worth approach to wealth management that combines both comprehensive financial planning and investment management. Our investment philosophy is based on providing actively managed, well-diversified portfolios, with a long-term focus. We continue to believe this is the optimal approach for helping our clients ultimately reach their goals and objectives.

The following charts support our investment philosophy by demonstrating that: the stock market goes up over time, but returns are not linear, market declines are common, the value of time, and the benefit of portfolio diversification.

The market goes up over time, but returns are not linear

The S&P 500 returned +31.5% in 2020, which ranks as the 40th best calendar year ever. The following chart displays the S&P 500's annual returns since 1928. From 1928 to 2020, the stock market produced a total annualized return of +9.6%. A $1,000 investment in 1928 would be worth over $4.8 million today. We would also like to highlight that this data set starts right before The Great Depression where the market posted a total return of-29.0% throughout the entire 1930s. The total time period includes eleven bear markets, fifteen recessions, and dozens of corrections and pullbacks.

Since 1928, the stock market produced positive results in 68 calendar years vs. 25 years with negative returns. The market went higher in 73% of years with an average return of +20.8% and declined in 27% of years with an average decline of-14.0%. As always, we remind our clients that the market goes up over time, but the returns are not linear. Volatility and negative periods are common, however the longer an investor remains invested in the market the greater the probability of a positive return.

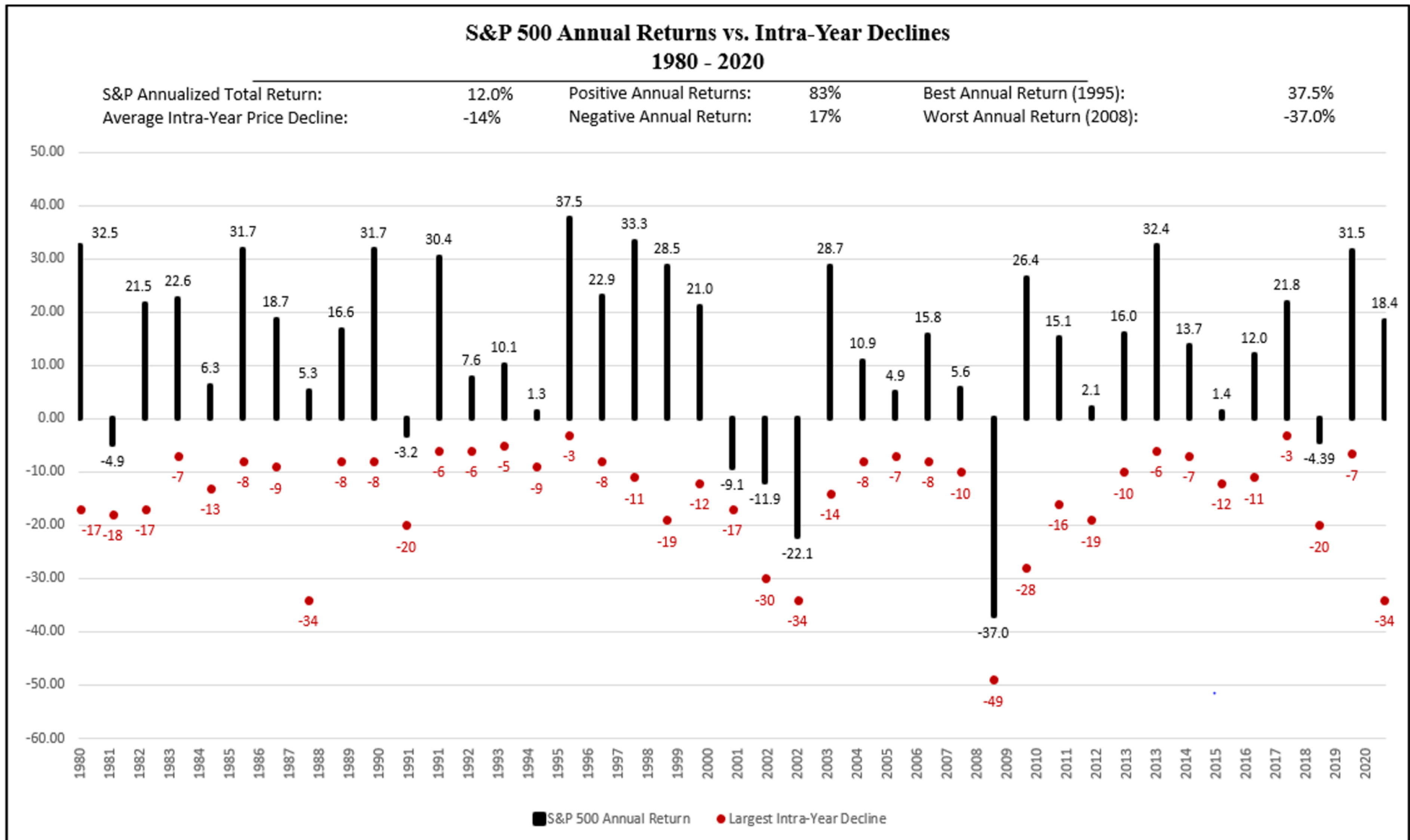


Securities offered through LPL Financial. Member FINRA/SIPC. Investment Advice offered through Winthrop Wealth, a Registered Investment Advisor and separate entity from LPL Financial.

Market declines are common

The following chart displays the S&P 500's annual return vs. the largest intra-year decline since 1980. Over this period, the S&P 500 has generated a total annualized return of +12.0%. Annual returns ranged from-37.0% to +35.5%. A $1,000 investment in 1980 would be worth over nearly $103,000 million today.

Despite strong returns since 1980, this time set includes some of the most volatile periods in history, including the 1987 Crash, Tech Bubble, and Global Financial Crisis. There were plenty of market drops along the way as the average intra-year price decline was-14%. This simply means that at some point each year the S&P 500 dropped by an average of-14%. The data makes sense as since 1950 the stock market has averaged at least one correction each year. This reinforces our long-term investment philosophy – since we plan for stock market volatility and we incorporate these assumptions into our financial plans, we are less likely to overreact when it happens.

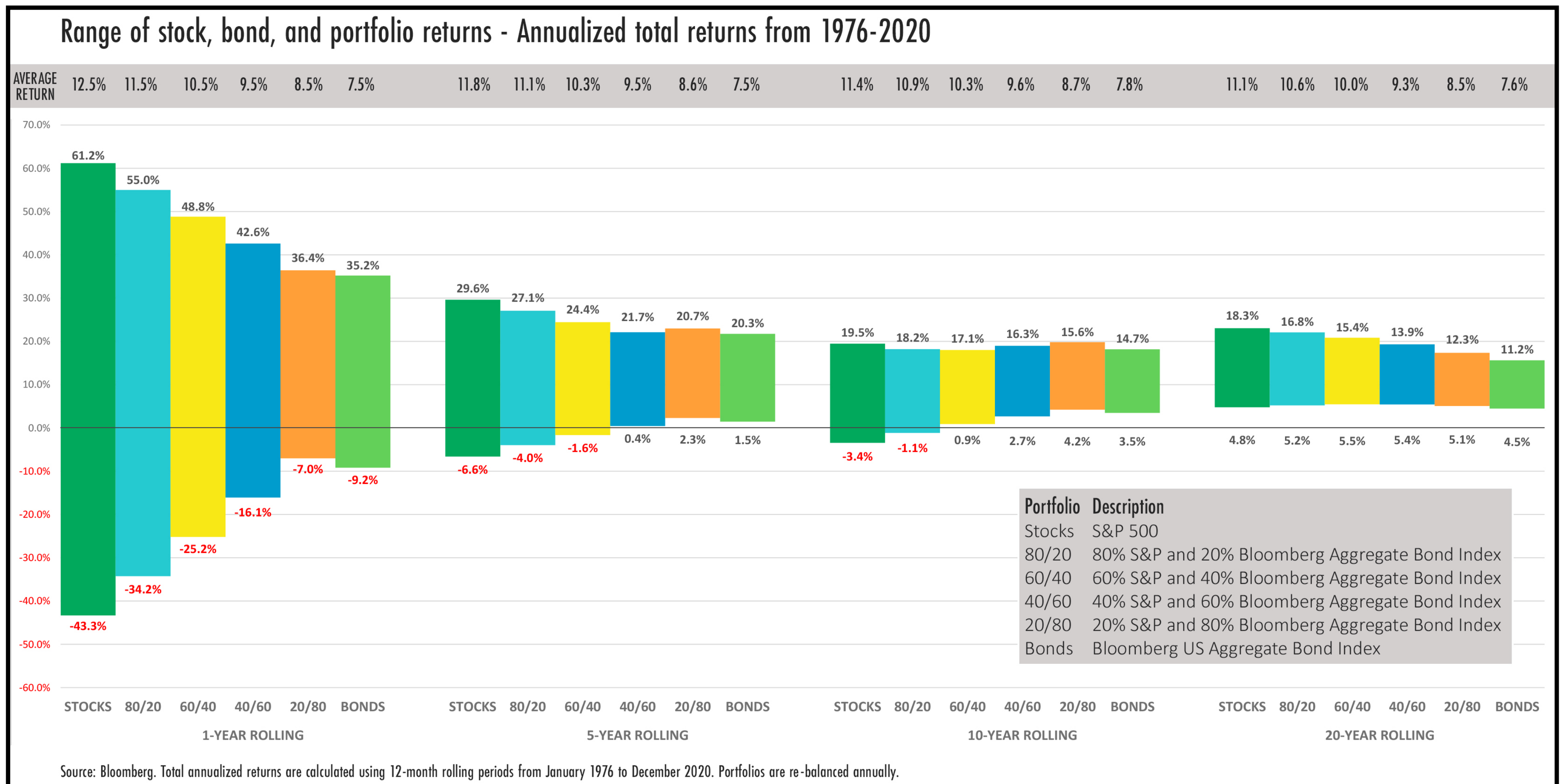


Securities offered through LPL Financial. Member FINRA/SIPC. Investment Advice offered through Winthrop Wealth, a Registered Investment Advisor and separate entity from LPL Financial.

Value of time

The following chart displays the performance of various stock and bond portfolios over rolling periods. Our time-period runs from January 1976 through December 2020 – this is the longest possible data period we have for both the S&P 500 (stocks) and Bloomberg Barclays Aggregate Bond index (bonds). Rolling periods run from month-to-month over the stated time frame and allow for a larger data set than calendar year periods.

As the rolling time-period increases, the value of the lowest return increases and the range of returns (high – low) decreases. Markets can be extremely volatile in the short-term and equity drawdowns can be severe and occur suddenly. However, we also know that equity markets increase over time. In general, an investor with a long time horizon can afford a heavier allocation to equities because they are able to ride through challenging markets without needing to take withdrawals from their portfolio. The appropriate asset allocation is part of our financial planning process and will be determined by the clients' unique circumstances, including but not limited to, time-horizon and willingness and ability to take risk.



Securities offered through LPL Financial. Member FINRA/SIPC. Investment Advice offered through Winthrop Wealth, a Registered Investment Advisor and separate entity from LPL Financial.

Benefit of a diversified portfolio

Diversification and time are an investor's two best friends. Diversified portfolios can lead to more consistent and less volatile results than a single asset class. We know that markets can be extremely volatile in the short-term but difficult periods do not last forever. The longer the investment time horizon the greater the odds of positive returns.

To highlight the benefits of diversification, we examined the total return performance of nine separate asset classes and a diversified asset allocation portfolio from 2006 to 2020. Note that from year-to-year many asset classes rotate from top to bottom performers. We will also highlight that the asset allocation portfolio consistently stays the middle. Why is that? Our hypothetical diversified asset allocation portfolio is comprised of 60% equities, 35% fixed income, 2% commodities, and 3% cash. Without getting too technical, the underlying asset classes are not perfectly correlated, in other words, they do not all move in the same direction. Furthermore, asset classes including equities and fixed income can sometimes have a negative correlation, meaning they move in opposite directions and act as a ballast. Over the full time period, the diversified asset allocation portfolio ranks as the 5th best performer, with the 7th lowest volatility, and the 3rd best Sharpe Ratio (risk-adjusted performance).

Asset Class Returns

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2006 - 2020 Annualized Return	2006 - 2020 Annualized Volatility	2006 - 2020 Sharpe
Emerging Markets 32.1%	Emerging Markets 39.4%	Fixed Income 5.2%	Emerging Markets 78.5%	Small Cap 26.8%	Fixed Income 7.8%	Emerging Markets 18.2%	Small Cap 38.8%	Large Cap 13.7%	Large Cap 1.4%	Small Cap 21.3%	Emerging Markets 37.3%	Cash 1.8%	Large Cap 31.5%	Small Cap 19.9%	Large Cap 9.9%	Emerging Markets 21.8%	Fixed Income 1.04
Developed International 26.3%	Commodities 16.2%	Cash 1.8%	High Yield 58.2%	Mid Cap 26.6%	High Yield 5.0%	Mid Cap 17.8%	Mid Cap 33.5%	Mid Cap 9.7%	Fixed Income 0.5%	Mid Cap 20.7%	Developed International 25.0%	Fixed Income 0%	Mid Cap 26.2%	Large Cap 18.4%	Mid Cap 9.5%	Small Cap 20.3%	High Yield 0.65
Small Cap 18.3%	Developed International 11.2%	Asset Allocation 23.5%	Mid Cap 37.3%	Emerging Markets 18.9%	Large Cap 2.1%	Developed International 17.3%	Large Cap 32.4%	Asset Allocation 7.1%	Cash 0%	High Yield 17.1%	Large Cap 21.8%	High Yield -2.1%	Small Cap 25.5%	Emerging Markets 18.3%	Small Cap 8.9%	Mid Cap 18.3%	Asset Allocation 0.62
Large Cap 15.8%	Mid Cap 8.0%	High Yield -26.2%	Developed International 31.8%	Commodities 16.8%	Asset Allocation 1.3%	Small Cap 16.4%	Developed International 22.8%	Fixed Income 6.0%	Asset Allocation -0.8%	Large Cap 12.0%	Mid Cap 16.2%	Large Cap -4.4%	Developed International 22.0%	Mid Cap 13.6%	High Yield 7.5%	Developed International 17.5%	Large Cap 0.58
Asset Allocation 12.9%	Asset Allocation 7.3%	Small Cap -33.8%	Small Cap 27.1%	High Yield 15.1%	Cash 0.1%	Large Cap 16.0%	Asset Allocation 17.4%	Small Cap 4.9%	Developed International -0.8%	Commodities 11.8%	Asset Allocation 14.8%	Asset Allocation -4.6%	Asset Allocation 20.7%	Asset Allocation 12.5%	Asset Allocation 7.5%	Commodities 16.5%	Mid Cap 0.46
High Yield 11.8%	Fixed Income 7.0%	Commodities -35.6%	Large Cap 26.4%	Large Cap 15.1%	Mid Cap -1.7%	High Yield 15.8%	High Yield 7.4%	High Yield 2.5%	Mid Cap -2.2%	Emerging Markets 11.2%	Small Cap 14.6%	Small Cap -11.0%	Emerging Markets 18.4%	Developed International 7.8%	Emerging Markets 6.6%	Large Cap 15.1%	Small Cap 0.38
Mid Cap 10.3%	Large Cap 5.6%	Mid Cap -36.2%	Asset Allocation 23.4%	Asset Allocation 12.5%	Small Cap -4.2%	Asset Allocation 11.9%	Cash 0%	Cash 0%	Small Cap -4.4%	Asset Allocation 8.8%	High Yield 7.5%	Mid Cap -11.1%	High Yield 14.3%	Fixed Income 7.5%	Fixed Income 4.5%	Asset Allocation 10.1%	Emerging Markets 0.25
Cash 4.8%	Cash 4.8%	Large Cap -37.0%	Commodities 18.9%	Developed International 7.8%	Developed International -12.1%	Fixed Income 4.2%	Fixed Income -2.0%	Emerging Markets -2.2%	High Yield -4.5%	Fixed Income 2.6%	Fixed Income 3.5%	Commodities -11.2%	Fixed Income 8.7%	High Yield 7.1%	Developed International 4.5%	High Yield 9.7%	Developed International 0.19
Fixed Income 4.3%	High Yield 1.9%	Developed International -43.4%	Fixed Income 5.9%	Fixed Income 6.5%	Commodities -13.3%	Cash 0.1%	Emerging Markets -2.6%	Developed International -4.9%	Emerging Markets -14.9%	Developed International 1.0%	Commodities 1.7%	Developed International -13.8%	Commodities 7.7%	Cash 0.5%	Cash 1.2%	Fixed Income 3.2%	Cash 0
Commodities 2.1%	Small Cap -1.6%	Emerging Markets -53.3%	Cash 0.1%	Cash 0.1%	Emerging Markets -18.4%	Commodities -1.1%	Commodities -9.5%	Commodities -17%	Commodities -24.7%	Cash 0.3%	Cash 0.8%	Emerging Markets -14.6%	Cash 2.2%	Commodities -3.1%	Commodities -4.0%	Cash 0.5%	Commodities -0.31

Asset Class Key

Large Cap:	S&P 500	Developed International:	MSCI EAFE	Fixed Income:	Bloomberg Barclays US Agg
Mid Cap:	S&P 400	Emerging Markets:	MSCI Emerging Markets	Treasury Bills:	Bloomberg Barclays 1-3M Treasury Bills
Small Cap:	Russell 2000	High Yield	Bloomberg Barclays US Corporate High Yield	Commodities:	Bloomberg Commodity Total Return Index

Hypothetical Asset Allocation Portfolio Weights

Large Cap:	40%	Developed International:	9%	Fixed Income:	30%
Mid Cap:	4%	Emerging Markets:	3%	Treasury Bills:	3%
Small Cap:	4%	High Yield	5%	Commodities:	2%

Securities offered through LPL Financial. Member FINRA/SIPC. Investment Advice offered through Winthrop Wealth, a Registered Investment Advisor and separate entity from LPL Financial.

DISCLOSURES:

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

The Barclays Capital Municipal Bond Index is a broad market performance benchmark for the tax-exempt bond market, the bonds included in this index must have a minimum credit rating of at least Baa.

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

No investment strategy assures success or protects against loss. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Rebalancing a portfolio may cause you to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss. All investing involves risk which you should be prepared to bear.