JANUARY 2022 CLIENT QUESTION OF THE MONTH: Favorite Charts of 2021

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For our January 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 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.

The following charts support our investment philosophy by demonstrating that while the stock market goes up over time, returns are not linear as market declines are common. And that investors can benefit by having a diversified portfolio and maintaining a long-term viewpoint.

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S&P 500 – Returns Pyramid

The S&P 500 returned +31.5% in 2020, which ranks as the 20th 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 +9.7%. A $1,000 investment in 1928 would be worth over $6.2 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 69 calendar years vs. 25 years with negative returns. The market went higher in 73% of years with an average return of +21.0% 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.

S&P 500 Calendar Year Returns: 1928 - 2021

Total Annualized Return: 9.7%

Positive Years: 69 (73%)

Negative Years: 25 (27%)

-50% to -40%	-40% to -30%	-30% to -20%	-20% to -10%	-10% to 0%	0% to 10%	10% to 20%	20% to 30%	30% to 40%	40% to 50%	50% to 60%
						1944 19.5%				
						1972 19.0%				
						1986 18.7%	**2021 28.7%**			
						1979 18.6%	2003 28.7%			
						2020 18.4%	1998 28.5%	1928 37.9%		
					1992 7.6%	1952 18.2%	1961 26.9%	1995 37.5%		
				1939 -0.1%	1978 6.6%	1988 16.6%	2009 26.4%	1975 37.2%		
				1953 -0.9%	1956 6.5%	1964 16.4%	1943 25.6%	1945 36.3%		
				1990 -3.2%	1984 6.3%	2012 16.0%	1976 23.9%	1936 33.7%		
				2018 -4.4%	1947 5.6%	2006 15.8%	1967 23.9%	1997 33.3%		
				1934 -4.7%	2007 5.6%	2010 15.1%	1951 23.8%	1950 32.6%		
				1981 -4.9%	1948 5.4%	1971 14.3%	1949 23.6%	1980 32.5%		
				1977 -7.2%	1987 5.3%	2014 13.7%	1996 22.9%	2013 32.4%		
			1957 -10.7%	1946 -8.0%	2005 4.9%	1965 12.5%	1963 22.8%	1985 31.7%		
			1941 -11.6%	1969 -8.4%	1970 3.9%	1959 12.0%	1983 22.6%	1989 31.7%		
			2001 -11.9%	1962 -8.7%	2011 2.1%	2016 12.0%	2017 21.8%	2019 31.5%		
		2002 -22.1%	1929 -11.9%	2000 -9.1%	2015 1.4%	1968 11.0%	1982 21.5%	1955 31.4%	1933 44.1%	
	1937 -34.7%	1974 -26.5%	1973 -14.7%	1940 -9.6%	1994 1.3%	2004 10.9%	1999 21.0%	1991 30.4%	1958 43.1%	
1931 47.1%	2008 -37.0%	1930 -28.5%	1932 -14.8%	1966 -10.0%	1960 0.5%	1993 10.1%	1942 20.1%	1938 30.1%	1935 41.4%	1954 52.3%

SOURCE: Bloomberg

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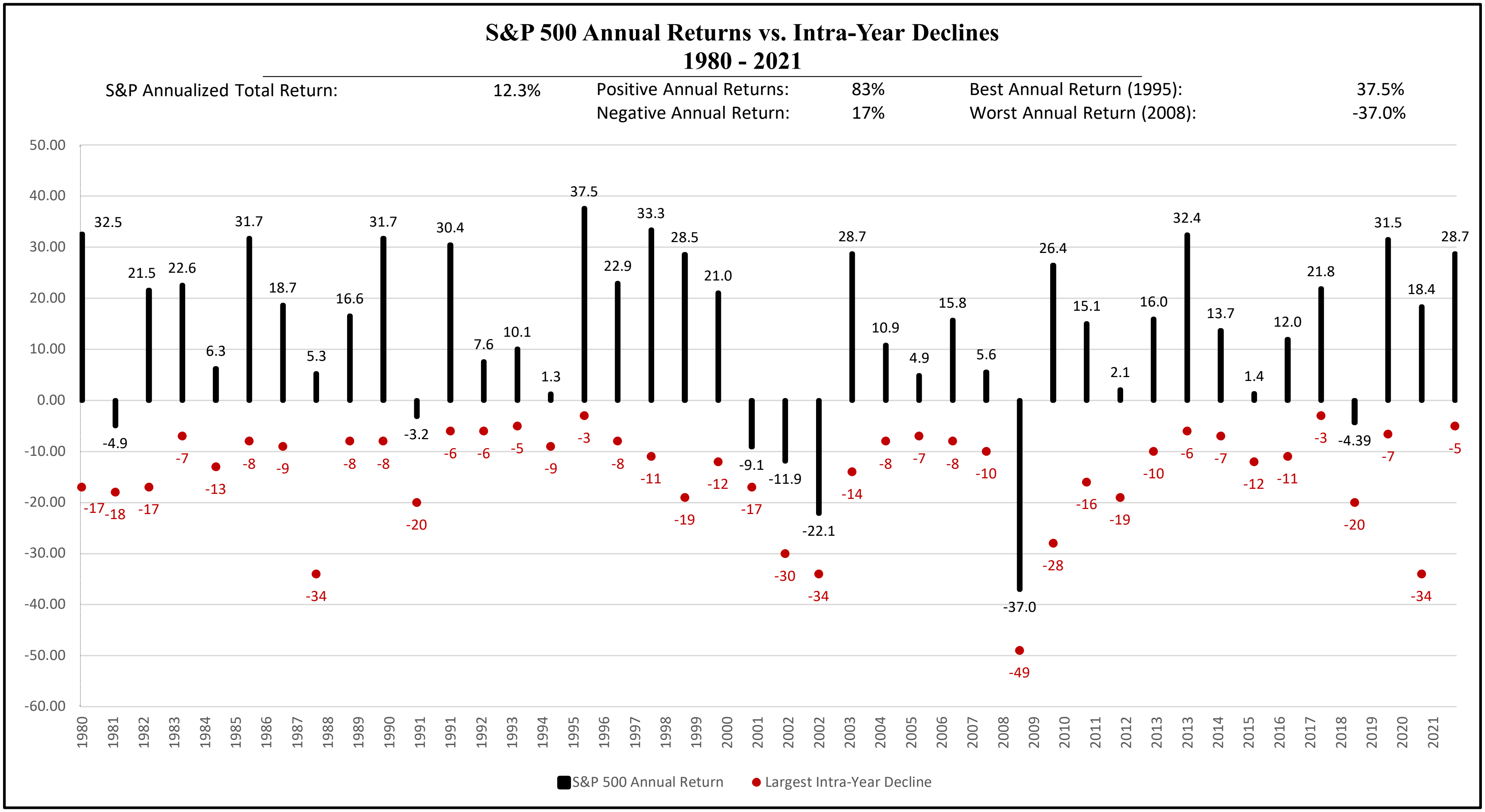
S&P 500 – Annual Returns vs. Intra-Year Declines

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 +12.3%. Annual returns ranged from-37.0% to +35.5%.

We also wanted to highlight the strong market returns in 2021 with very little volatility. The market was up +28.7% while the largest decline was only about-5%.

Overall, the market has generated strong returns since 1980 despite some of the most volatile periods in history, including the 1987 Crash, Tech Bubble, Global Financial Crisis, and Covid Crash. 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.



SOURCE: Bloomberg

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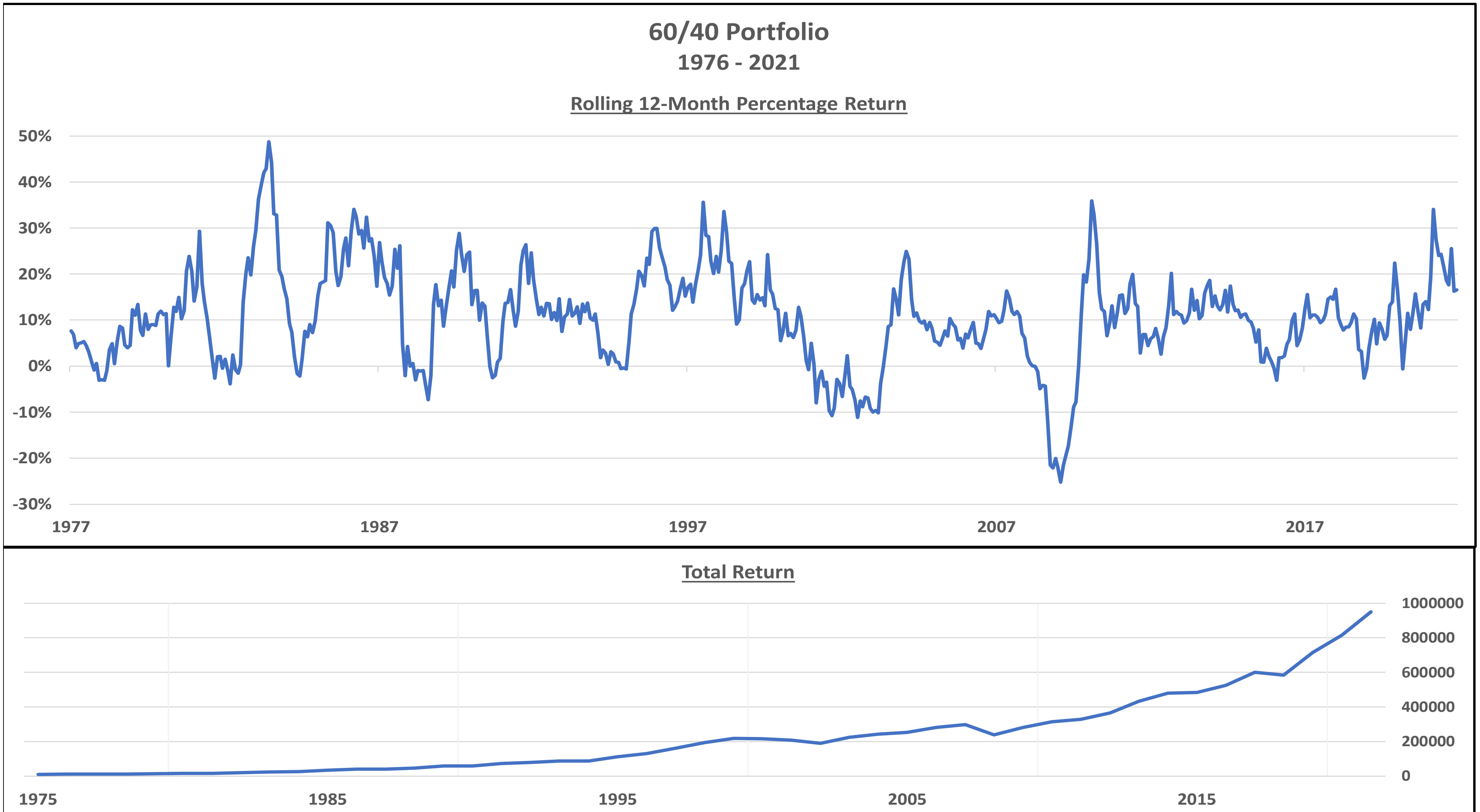
Historical 60/40 Portfolio Return

The chart displays both the Rolling 12-Month Percentage Return and Total Return of a hypothetical 60/40 investment portfolio from 1976 through 2020.

The Rolling 12-Month Percentage Return portion shows that returns can vary significantly. Over the timeframe, annual returns ranged from -25.2% to +48.8% with an average of about +10.7%.

The Total Return section also demonstrates the value of a long time horizon, which is important to remember during periods of volatility. A $10,000 investment into this hypothetical 60/40 portfolio in 1976 would have increased to over $950,000 at the end of 2021.



Portfolio: 60% S&P 500 and 40% Bloomberg Barclays Aggregate Bond Index
Annual rebalance

Initial Value: $10,000
Source: Bloomberg

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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 2007 to 2021. 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 4th best performer, with the 7th lowest volatility, and the 2nd best Sharpe Ratio (risk-adjusted performance).

Asset Class Returns

															2007 - 2021		
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Annualized Return	Annualized Volatility	Sharpe
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 28.7%	Large Cap 10.6%	Emerging Markets 21.4%	Fixed Income 1.00
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%	Commodities +27.1%	Mid Cap 10.4%	Small Cap 20.3%	**Asset Allocation 0.66**
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%	Mid Cap 24.7%	Small Cap 8.7%	Mid Cap 18.4%	Large Cap 0.64
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%	Small Cap 14.8%	**Asset Allocation 7.6%**	Developed International 17.4%	High Yield 0.64
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 14.3%**	High Yield 7.1%	Commodities 16.5%	Mid Cap 0.52
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%	Developed International 11.3%	Emerging Markets 4.4%	Large Cap 15.3%	Small Cap 0.39
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%	High Yield 5.3%	Fixed Income 4.1%	**Asset Allocation 10.2%**	Emerging Markets 0.17
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%	Cash 0.0%	Developed International 3.6%	High Yield 9.7%	Developed International 0.16
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%	Fixed Income -1.5%	Cash 0.8%	Fixed Income 3.2%	Cash 0
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%	Emerging Markets -2.5%	Commodities -2.6%	Cash 0.4%	Commodities -0.21

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%

SOURCE: Bloomberg

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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.

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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 S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.
The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approxi¬mately 10% of the total market capitalization of the Russell 3000 Index.

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

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.
The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

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

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 Bloomberg Barclays US Treasury Bills 1-3 Month Index is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated investment grade, and have $300 million or more of outstanding face value.
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 Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

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Likewise, it is important to remember that 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. All investing involves risk which you should be prepared to bear.