JUNE 2023 CLIENT QUESTION OF THE

THE POWER OF COMPOUNDING

By Francesca Lanza | Associate Portfolio Manager

WINTHROP WEALTH

"Compound interest is the eighth wonder of the world. He who understands it, earns it… he who doesn't pays it." – Albert Einstein

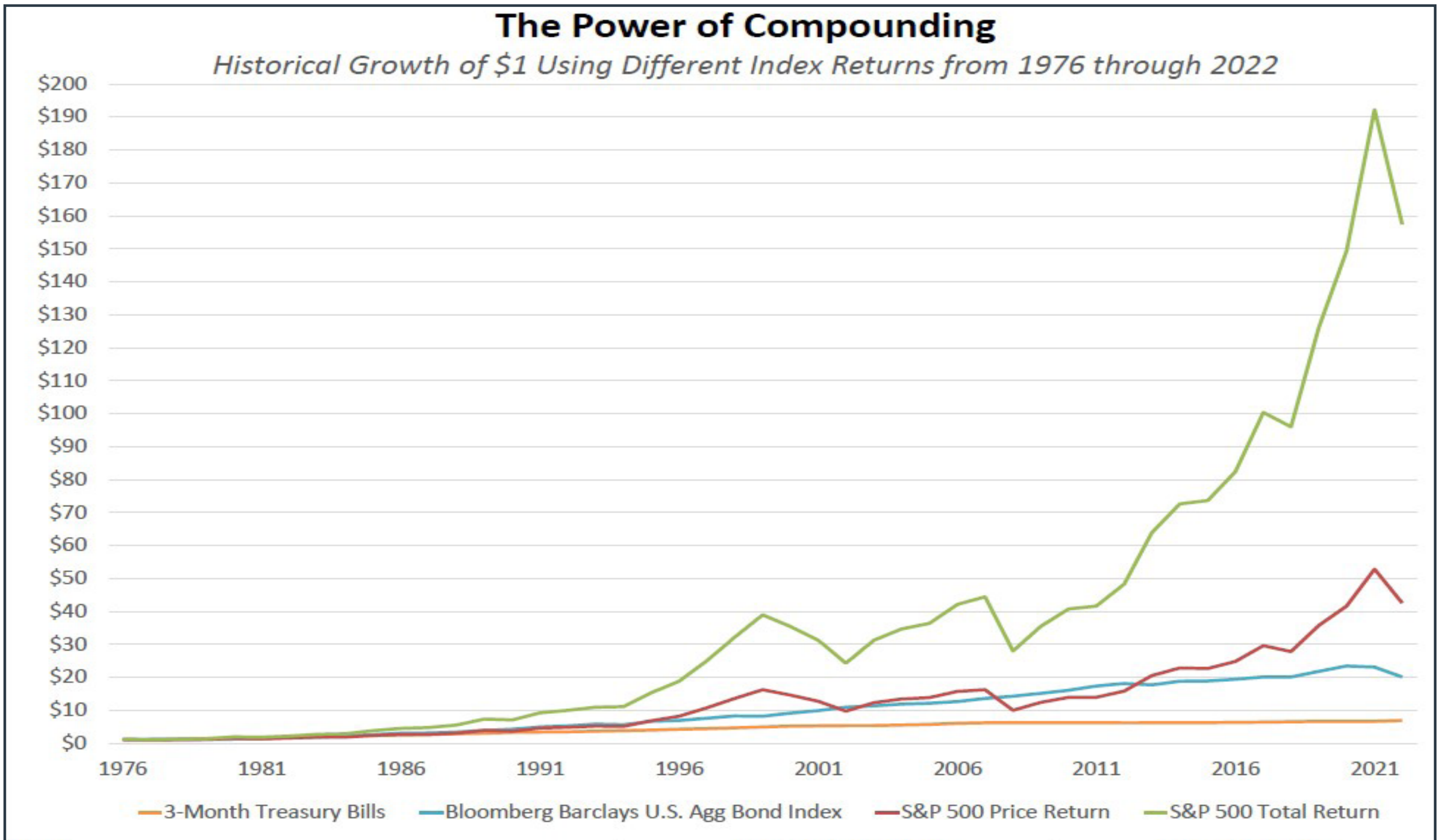
Amidst the current market volatility, we would like to emphasize the importance of maintaining a long-term outlook when investing to pursue your financial goals. In our June Client Question of the Month, our goal is to educate you on the power of compounding, which can be a fundamental driver in seeking growth over time.

The Power of Compounding

Compound growth refers to the return on an initial amount of money (principal), as well as on any accumulated earnings (interest, dividends, and/or price appreciation). The power of compounding, which becomes more noticeable over time, is the ability to add accumulated earnings onto the initial principal each period. Over long time periods, compounding can help turn a small initial investment into a substantial amount of money due to the "snowball effect" where both the initial principal and accumulated earnings generate returns together simultaneously. By giving your investments time to grow, you allow the compounding process to work for you and potentially multiply your wealth. *All investing involves risk, and no strategy guarantees success.*

To better illustrate this concept, the graph below showcases the historical growth of $1 invested in various indicess from 1976 to 2022 (approximately 47 years). We chose this particular time period because it represents the longest possible common dataset we have available for all four indices, which include the The Bloomberg Barclays US Treasury Bills 1-3 Month Index (3-Month Treasury Bills), the Bloomberg Barclays U.S. Investment-Grade Aggregate Bond index ("Agg"), the S&P 500 Price Return, and the S&P 500 Total Return.

It Is important to note that the indices used in the graph have different risk-return profiles and, consequently, present varying annualized returns. Treasuries are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. On the other hand, the Agg, which represents the U.S. investment-grade bond market index, includes various types of bonds in addition to Treasuries, therefore has additional credit risk in addition to market risk, and interest rate risk if sold prior to maturity. As for the S&P 500, it is a market-cap-weighted stock index that includes 500 of the largest companies in the United States. (The S&P 500 Price Return only considers movement in price of the securities in the index, while the S&P 500 Total Return also includes dividends and other distributions realized over a given period of time).



Index	Annualized Return	Growth of $1
3-Month Treasury Bills	4.21%	$7
Bloomberg Barclays U.S. Agg Bond Index	6.59%	$20
S&P 500 Price Return	8.31%	$43
S&P 500 Total Return	11.36%	$157

(Source: Bloomberg)

While a small percent difference in annualized return might not seem significant, it makes a huge impact over the course of many years. The chart provides perspective for understanding the impact compounding has over a long period of time. The data shows that the difference in annualized returns between Treasury bills and the Agg is 2.38%. However, over the 47-year historical period, an investor in the Agg could have accumulated nearly 3x more. Similarly, with the S&P 500, an investor who reinvested their dividends could have accumulated 4x more than one who didn't. *Please remember that all indices are unmanaged and cannot be invested into directly, and past performance is no guarantee of future results.*

Although compounding offers the potential for substantial growth, it requires consistency and discipline. Reinvesting dividends and staying invested for the long term are crucial elements in utilizing the full power of compounding. Nevertheless, all the indices demonstrated the consistent ability to compound and appreciate in value over the long term period shown. *Please remember that all investing involves risk, and no strategy guarantees success. For example, dividend payments are not guaranteed and may be reduced or eliminated at any time by a company.*

What are the benefits of staying invested?

Maintaining a long-term viewpoint when it comes to investing offers several advantages. It enables investors to avoid reacting impulsively to short-term market volatility, allowing them to allocate time and attention to other aspects of their lives while still progressing towards their long-term financial goals.

Historically, from 1976 to 2022, the stock market (S&P 500 Total Return) produced a total annualized return of +11.36% (Source: Bloomberg). The market has gone up over time but not smoothly. Throughout that period, the market experienced volatile cycles and will always have risks to overcome, as the average intra-price decline was -14% each year. Due to countless catalysts the market is sensitive to, short-term investing can be stressful and emotionally draining, as investors might make rash decisions driven by fear and/or greed. *Historically, equity markets have recovered from recessions and downturns; however, past performance is no guarantee of future returns. It is important to consider your own risk tolerance, financial circumstances, and time horizon when investing.*

Based on our experience, we believe the most effective course of action is to combine comprehensive financial planning with a globally diversified portfolio constructed by a thorough investment process. A financial advisor can help make rational and data-driven decisions rather than ones based on short-term emotions. We can proactively reposition actively-managed portfolios by adjusting holdings, engaging in **tax loss harvesting**, and rebalancing when appropriate. Nevertheless, our investment strategy remains focused on the long-term as we seek to capitalize on the benefits of diversification and the power of compounding. By having a consistent process and adhering to a well-structured investment plan, we help our clients avoid making emotional decisions and maintain focus on the bigger picture throughout different market environments. *Please remember that no strategy assures success or protects against loss.*

At **Winthrop Wealth**, we follow a **Total Net Worth Approach** and we believe the right mindset paired with a comprehensive financial plan and a thorough investment process can provide confidence in pursuing your long-term financial goals, especially during times of heightened market volatility. We help our clients navigate challenging markets by seeking to ensure their short-term cash flow needs are met while managing the rest of their investments in a globally diversified portfolio. By having two to three years of scheduled cash flows invested in ultra-short fixed income instruments, we seek to decrease the likelihood that we will need to sell out of risk assets after a market decline to fund distributions. *Please remember that no strategy assures success or protects against loss.*

DISCLOSURES:

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

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.

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 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.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

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.