MARCH 2024 CLIENT QUESTION OF THE MONTH

MARKET DECLINES ARE COMMON

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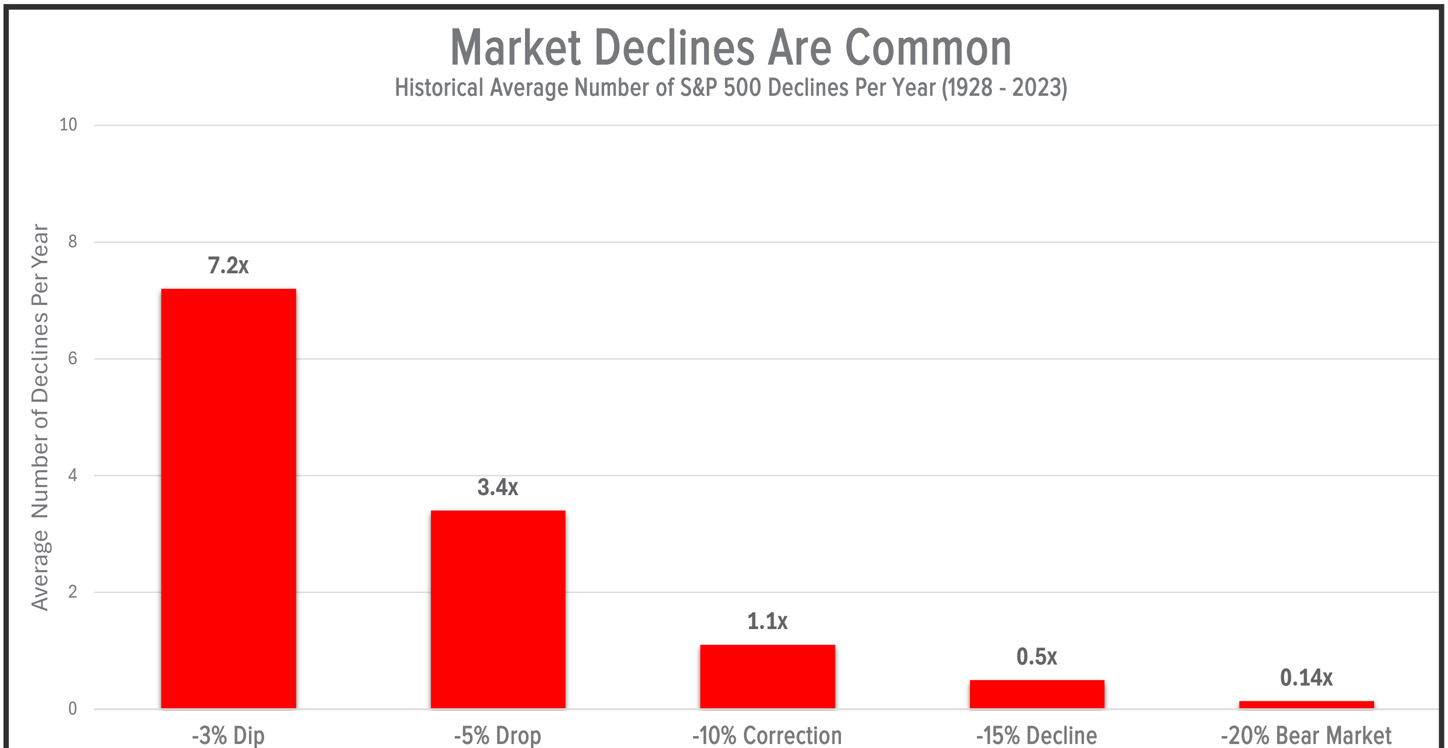
WINTHROP WEALTH

"Investors should treat **volatility** as a *friend*. High **volatility** permits an investor to purchase stocks that are particularly depressed and to sell stocks when they are selling at particularly high prices. The greater the **volatility**, the greater the opportunity."

Ed Wachenheim, author of Common Stocks and Common Sense

One of the key pillars to our investment philosophy is to maintain a long-term viewpoint as markets can be incredibly volatile over short time periods. Stock market performance over the last 6 years reinforces that belief. From 2018 through 2023, the S&P 500 increased by nearly +98% total and +12.1% on an annualized basis. Overall, this was a great time to be invested in the stock market, but the final numbers do not tell the entire story. This stretch was one of the most volatile periods in market history. Over the timeframe the S&P 500 experienced two Bear Markets (a decline of -20% or more) and a -19% Decline.

Although the last six years included higher than typical volatility, market declines are common. The following chart displays the average annual occurrences of various market declines in the S&P 500 from 1928 – 2023. For example, the S&P 500 has averaged about one Correction each year and a Bear Market every 0.14 years (about one every seven years). Despite these frequent declines, the S&P 500 generated a total annualized return of +9.6% over the period. A $1 investment in 1928 would have increased to over $6,400 by the end of 2023. As noted in our **S&P 500 Bear Markets** chart, historically, challenging environments have created great buying opportunities for long-term investors. *Past performance is no guarantee of future returns. Consider your own risk tolerance, financial circumstances, and time horizon.*



Total Number of Occurrences	695	329	103	47	13

Source: Ned Davis Research, Bloomberg.

As we have written many times, no one is able to consistently forecast precisely when the market will decline and then rebound. Market tops and bottoms are never obvious in real time, only in hindsight. As such, we do not believe in making major changes to portfolios (i.e. market timing) in anticipation of potential upcoming volatility. That is a futile effort that can be damaging to portfolio performance. Please see our **Client Question - Principles for Long-Term Investing: Market Timing Does Not Work**.

Due to the unpredictable nature of short-term market fluctuations, our investment philosophy places a strong emphasis on maintaining a long-term perspective while staying disciplined, opportunistic, and diversified, and striving to mitigate fees, taxes, and expenses. During inevitable market declines, while they can certainly be uncomfortable, we utilize the volatility as an opportunity to make lemonade out of lemons by proactively implementing potentially valuable changes to many portfolios. We do so by leveraging our experience, and technological tools to 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 security sold can be used to offset taxable gains. Since we simultaneously sell a security to capture a loss and purchase a different security with similar exposure, the client is never out of the market. We seek to 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**. *Tax loss harvesting does not protect against loss and may not be applicable in every tax situation.*

- *Repositioning Portfolios*: By repositioning portfolios, we can adjust 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 toward 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 to enhance future returns occur during periods of market turmoil. *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.*

At Winthrop Wealth, we follow a **Total Net Worth Approach** to wealth management that combines both comprehensive financial planning and investment management. The financial plan helps define cash flow needs, seeks to optimize account structures, considers tax mitigation strategies, and determines the appropriate asset allocation based on the client's willingness and ability to take risk. Based on the output of the financial plan, our investment management process designs a well-diversified portfolio constructed with a long-term methodology based on prudent risk management, asset allocation, and security selection. *For clients who receive both financial planning and investment advisory services under agreement. No strategy assures success or protects against loss. Investing involves risk, including loss of principle.*

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.

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.

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.

Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.

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.

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