Some Food For Thought

March 2025

<u>Executive Summary</u>: *"There are decades where nothing happens, and there are weeks where decades happen." Over the past several weeks, financial markets have digested a disorienting number of headlines. This state of limbo is uncomfortable, especially as words such as "war" and "recession" are thrown around with growing ease. While stock pullbacks such as these are normal, they never feel good. And each time they come around, it's hard to remember we've fought through much worse situations in the past. Fortunately, there are things we can look towards to help us through these difficult times. Here are 5 of them…*

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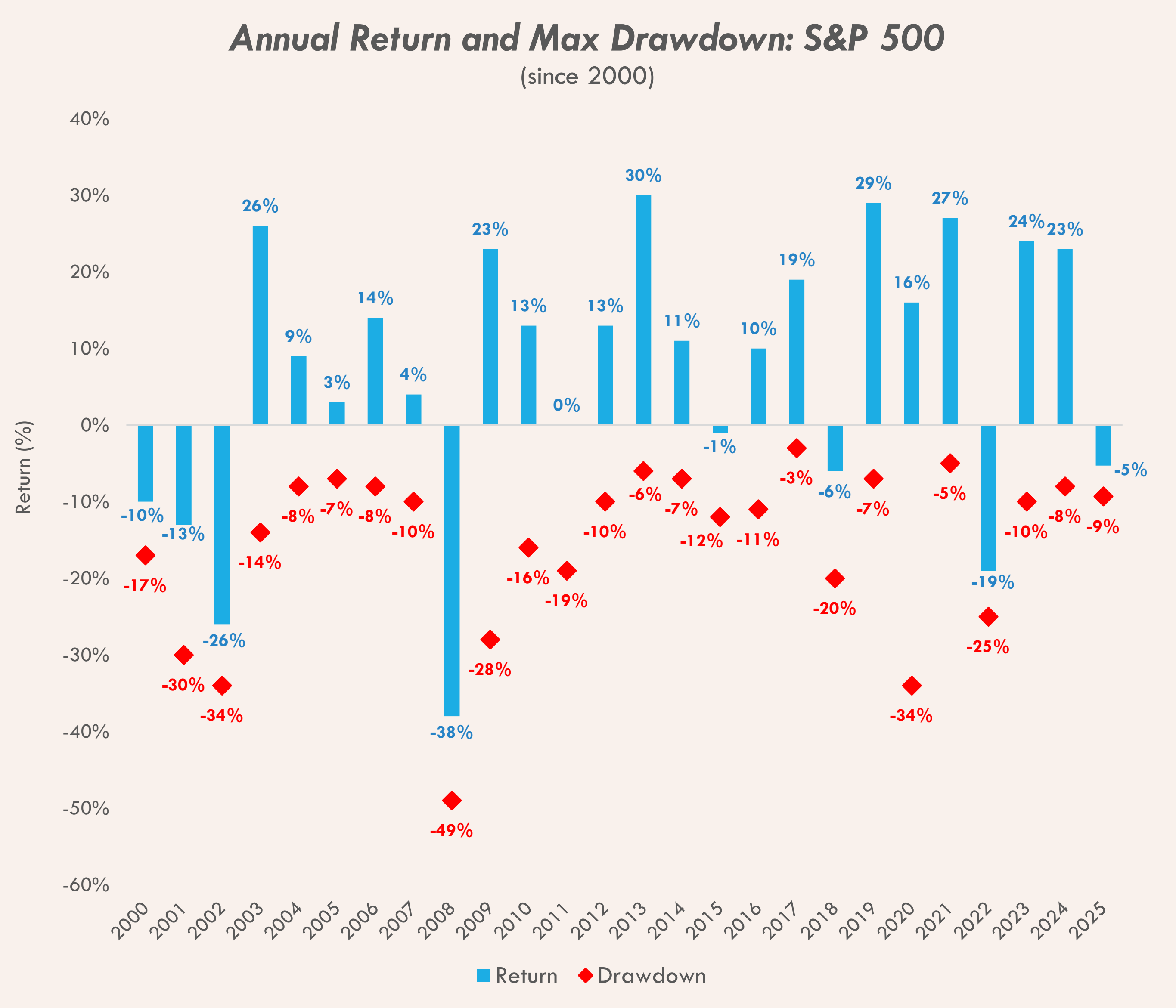
1. Stocks Don't Rise Indefinitely



Unfortunately, stocks don't go up indefinitely…

But (through 3/11/2025) the S&P 500 (^SPXTR) is up:

- 10.4% in the past 1 year
- 38.8% in the past 3 years
- 119.7% in the past 5 years
- 226.9% in the past 10 years
- 537.4% in the past 25 years

And this recent drawdown is minor by historical standards:

- 16 of the past 26 years have had drawdowns of -10% or more, with an average pullback of -21%
- Ranks 17th worst annual drawdown in past 26 years

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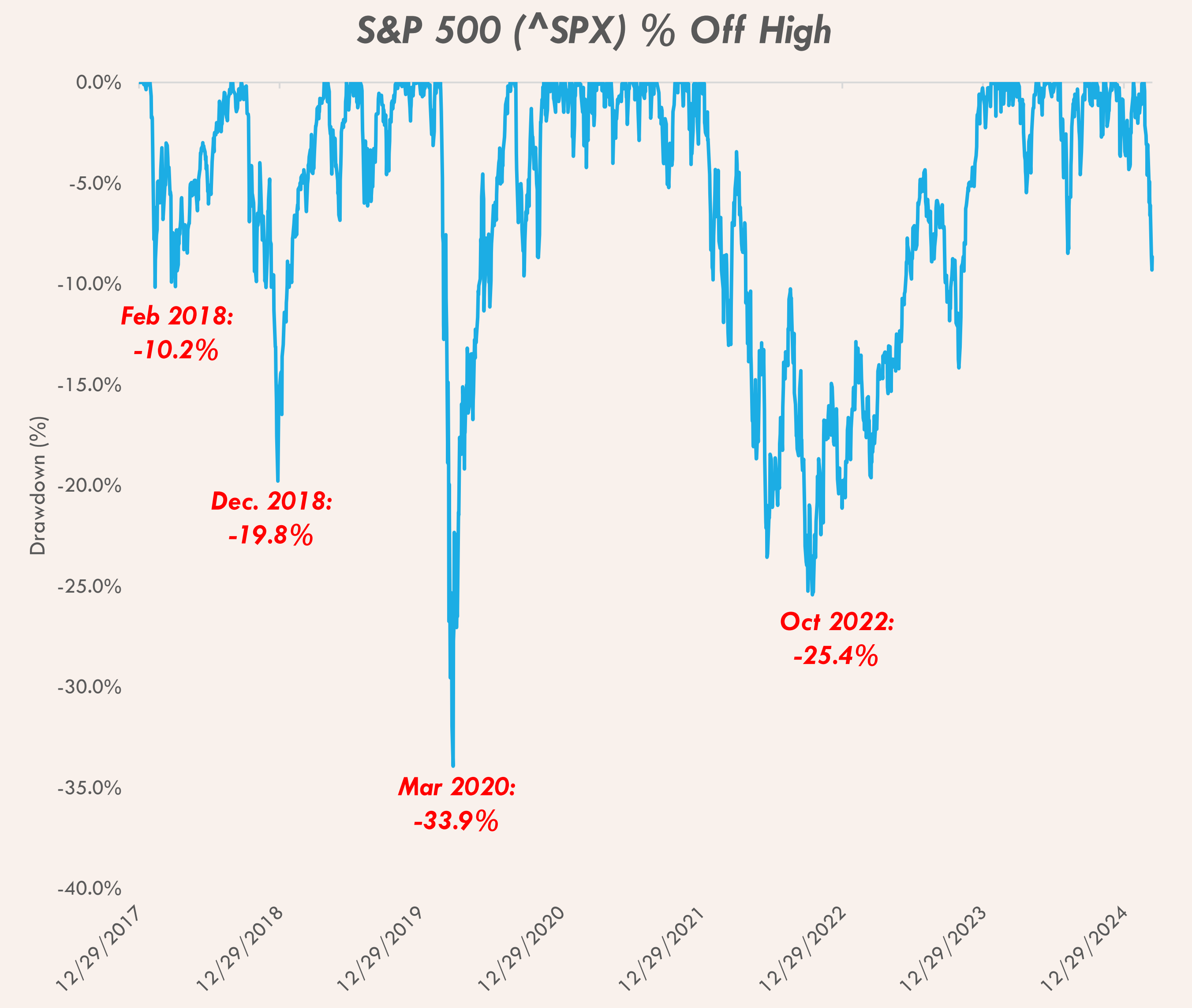
Data Source: JPMorgan Asset Management, YCharts

2. This is Nothing New



Stocks have performed very well in recent years, but it has been far from smooth sailing.

Since January 2018 we have had:

- Tariff/trade wars with our biggest trading partner
- Global pandemic
- Steep recession
- Multi-year war in Europe
- Highest US inflation in 40+ years
- Worst period for US bonds in American history
- Fed aggressively raising rates
- 3rd largest bank failure in US history
- War in the Middle East

And yet the <u>S&P 500 (Total Return) is up 135.3%(!)</u> over this period!

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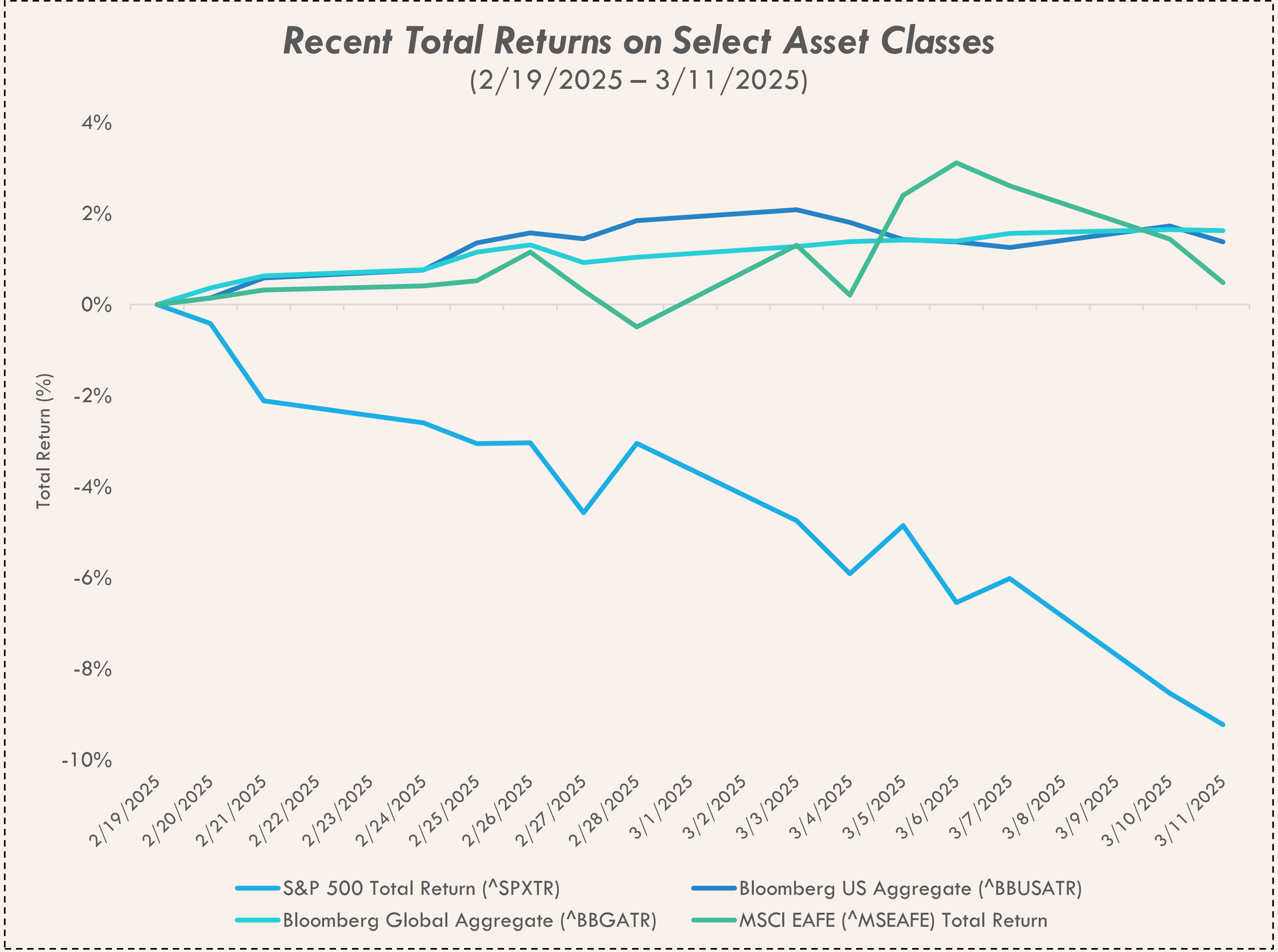
Data Source: YCharts

3. Diversification is Working!



US stocks are sliding, but other asset classes have stepped in to pick up some of the slack

Total Returns (2/19/25 - 3/11/25) (see left):

- S&P 500: -9.2%
- US Bond Index: +1.4%
- Global Bond Index: +1.6%
- International Stocks: +0.5%

All-weather portfolios are made for stormy times such as these

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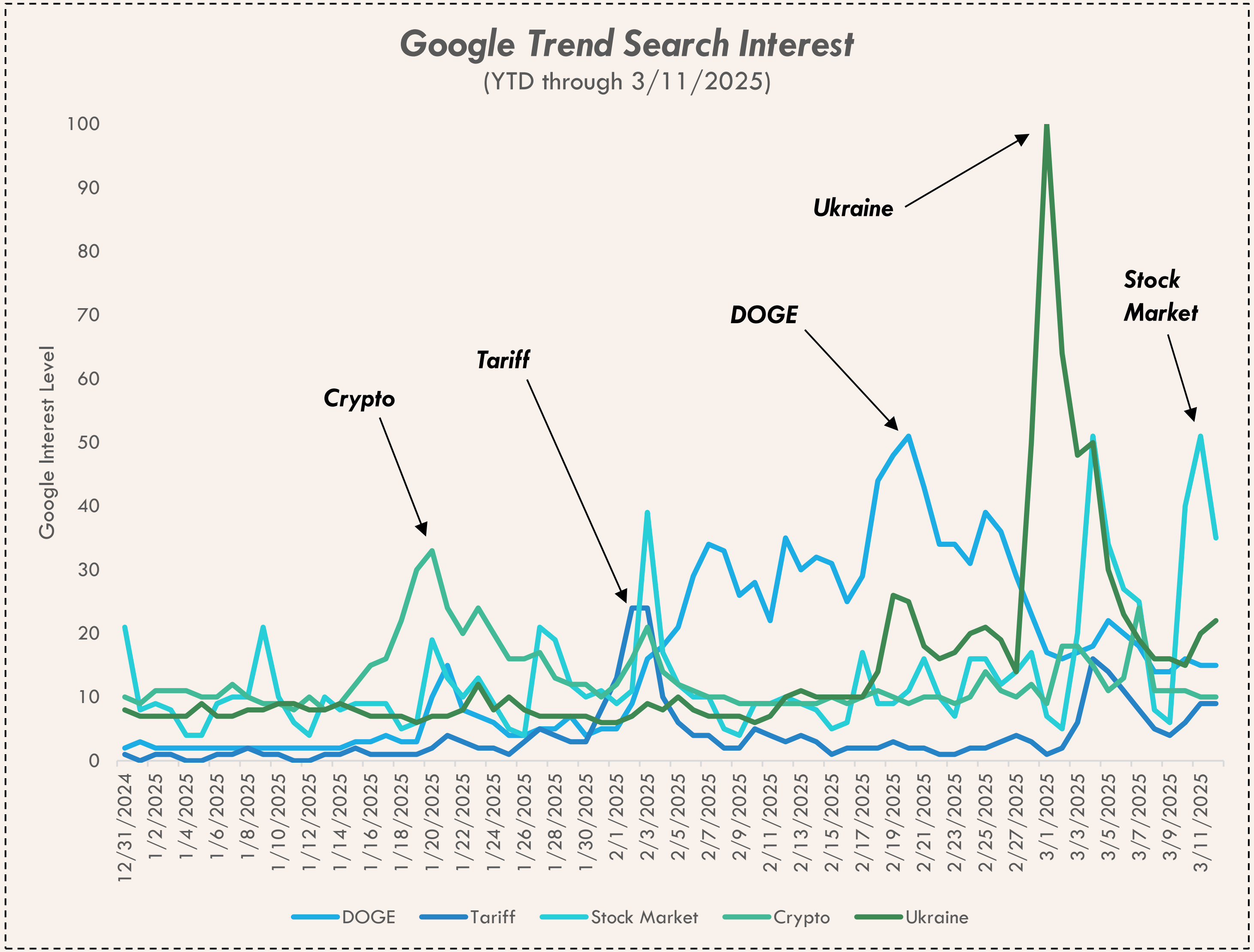
Data Source: YCharts

4. Headline Risk is Real. Ignore it.



Headlines and news cycles are rotating through media at the speed of light.

Since the start of the year, leaders in search interest have oscillated between:

- Crypto
- Tariffs
- DOGE
- Ukraine
- Stock Market

Stocks (usually) don't go down because of good news- they are ultrasensitive to negative headlines. Importantly, long term investors don't have to be.

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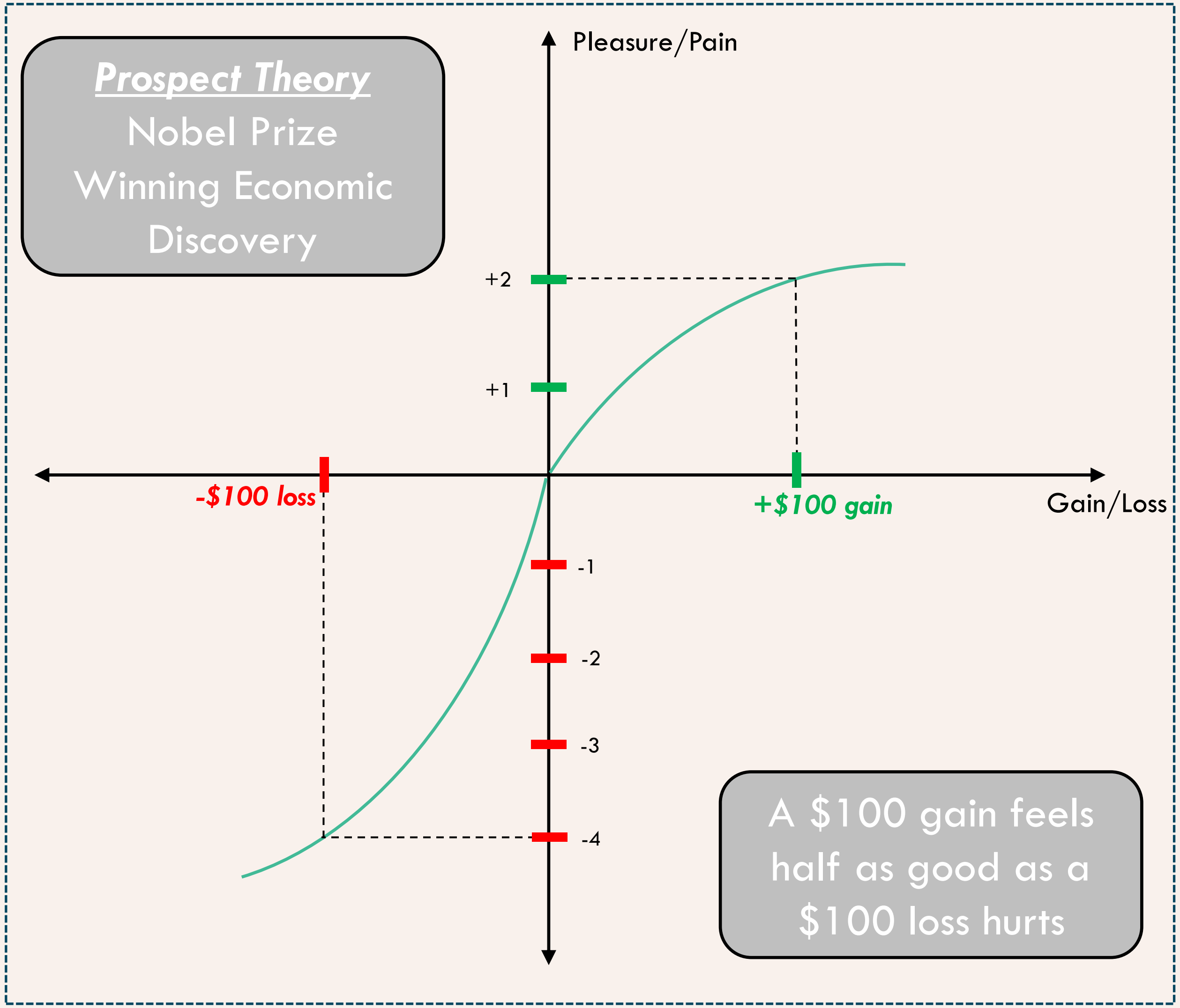
Data Source: Google Trends Data

5. Welcome the Opportunity for a Gut Check



Losses are ~2x more painful than gains are pleasurable

Daniel Kahneman won the Nobel Prize in Economics in part for his discovery of Prospect Theory: the idea that losses are more emotionally painful than gains are pleasurable.

It's natural for these times to feel especially painful, but it is a feeling that should be remembered through all market cycles.

Sound portfolios are constructed such that you can feel comfortable regardless of what markets are doing. If you feel an irresistible urge to sell equities in minor pullbacks such as this, it may be worth reassessing the amount of risk in your portfolio.

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Data Source: Daniel Kahneman

Some Food for Thought

Fear is normal in times like these.

But remember these key things:

1) ***Stocks don't go up indefinitely***: If they did, investing would be easy.
2) ***This is nothing new***: Volatility has been common in the past 7+ years. We dealt with it then, and we will deal with it now.
3) ***Diversification is Working:*** It is annoying and cumbersome to carry around an umbrella, until it starts to rain.
4) ***Headline Risk is Real. Ignore It:*** Stocks don't go down when things are great. Headlines are bad, but they always are during healthy, normal pullbacks.
5) ***Welcome the Opportunity for a Gut Check***: Losses aren't fun. They never are and they never will be. Feeling nervous is natural, and if you feel your emotions running too hot, take the opportunity to reassess your portfolio risk relative to your risk tolerance.

It is often said "there is no such thing as a free lunch" in financial markets. And it is very true- stomaching volatility is the price we pay for admittance into the world of long-term investing. Without the acceptance of short-term discomfort, there would be little opportunity to realize any meaningful long-term gains. As always, we stand by our recommendation of accepting the uneasiness, resisting the urge to act, and remembering that a great financial plan is built for moments such as these, and only works when we decide to stay the course through all market environments. We remain attentive to current market and political events as they happen. We have not made any direct changes in response to the current volatility, but we remain prepared to adjust, if necessary, moving forward.

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Thank you for reading; please be well.

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