

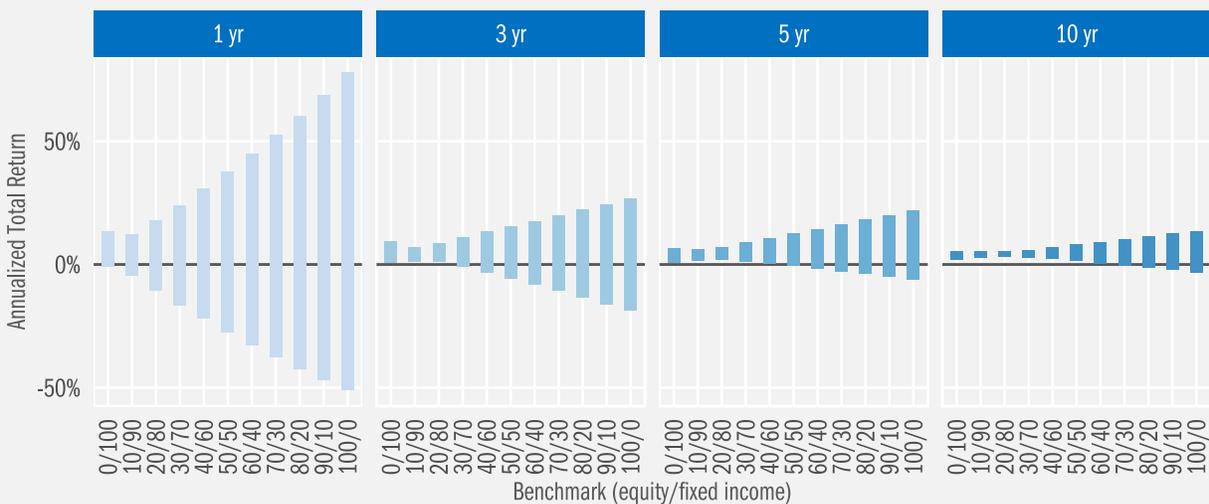
## “IT’S ALL RELATIVE”

Normally we’re not big fans of the phrase, as it’s often used reflexively rather than with specific intent. On the contrary, we reference relativity often and with specific intent. For example, we regularly remind readers that expectations for greater relative return should be accompanied by expectations for greater risk. This month, we offer perspective on the historical relative returns of a range of mixtures of equity and fixed income using the benchmarks we utilize for our portfolios as the basis for comparisons. The goal of the review is to further support the process of defining client comfort with exposure to market risk and to provide a means to establish reasonable expectations for short- and long-term outcomes.

## Benchmark Perspective

With the domestic equity market having recovered a substantial portion of its latest drawdown (decline from a prior peak), and in observation of the challenging environment we experienced in the latter months of 2018, we thought it appropriate to welcome readers to have a sit and gauge their comfort with market volatility. In Figure 1 we show the range of historical returns of our series of portfolio benchmarks over a bit more than the past 20 years for 1-, 3-, 5- and 10-year rolling periods. In those data we see that the ranges of outcomes have narrowed and that they have been more positively biased as the reference of time lengths.

**Figure 1: Range of Returns over Rolling Periods**

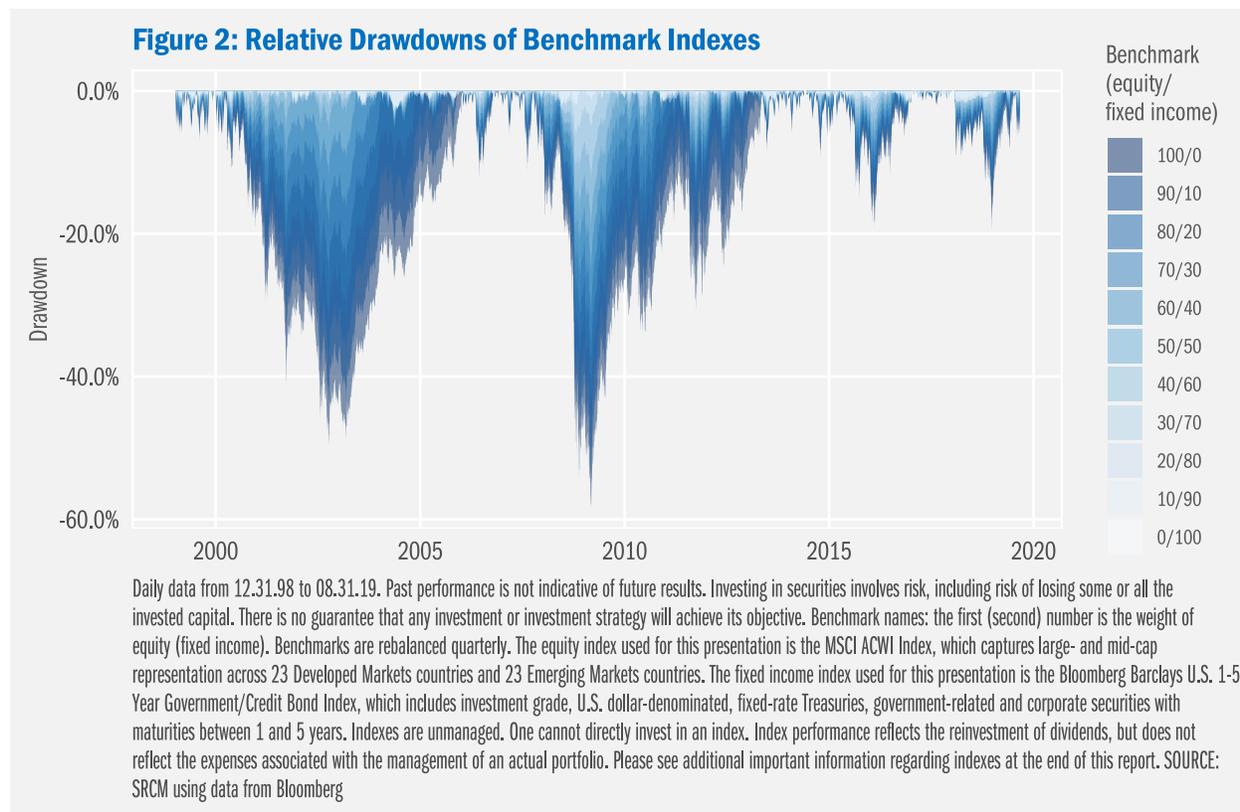


Daily data from 12.31.98 to 08.31.19. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Benchmark names: the first (second) number is the weight of equity (fixed income). Benchmarks are rebalanced quarterly. The equity index used for this presentation is the MSCI ACWI Index, which captures large- and mid-cap representation across 23 Developed Markets countries and 23 Emerging Markets countries. The fixed income index used for this presentation is the Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index, which includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Also expressed in those data is the fact that the magnitudes of relative gains historically for the most part have increased along with greater exposure to equity. So, too, however generally have the magnitudes of losses increased with added exposure to equity. This view of market history thus supports our thoughts regarding the trade-off between return and risk. While we might like to achieve greater long-term returns through increased exposure to equity in our portfolios, we very much should expect to experience greater volatility in those returns along the way.

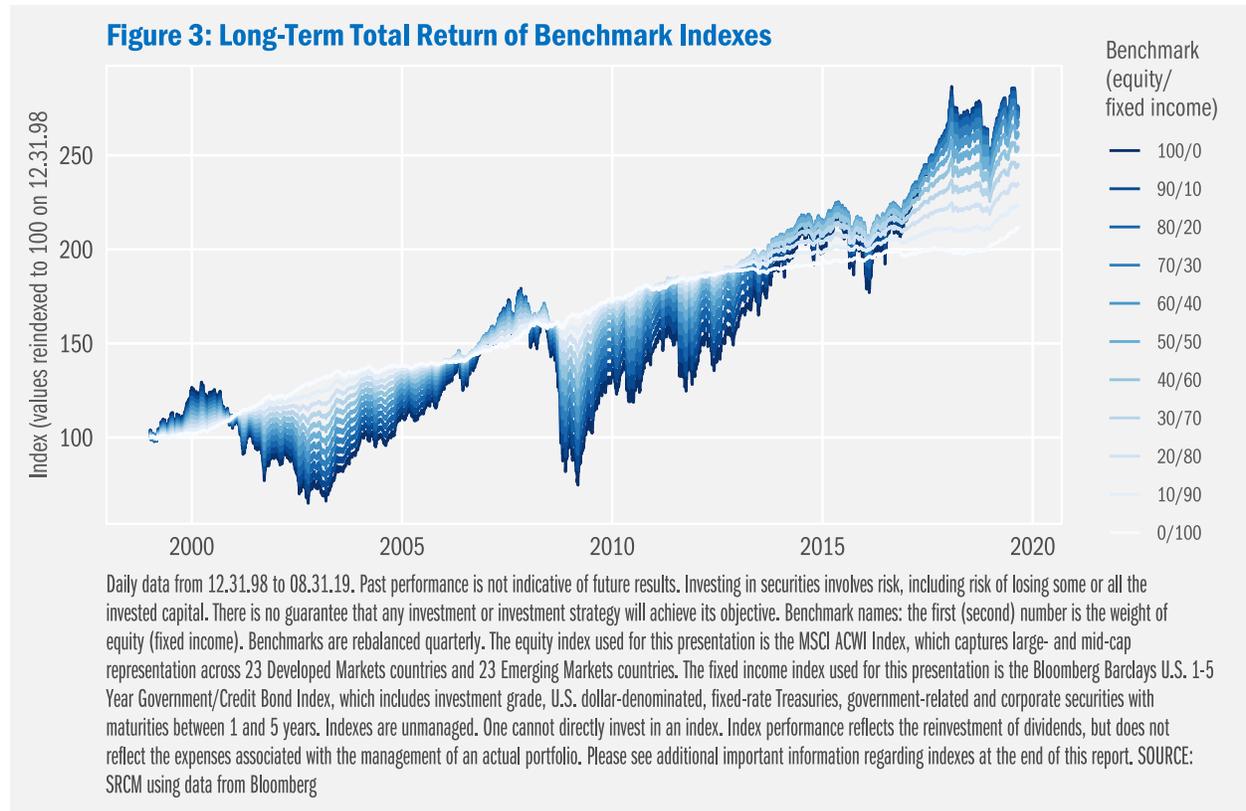
### Mind the Drops

And that greater volatility means not only daily, monthly and yearly variation in achieved returns. We, too, must expect that the cumulative losses we may experience during any given period could be greater as we add equity to our portfolios. In Figure 2 we show the long-term drawdowns of those same benchmarks. A drawdown represents the magnitude of accumulated losses from a prior peak. Given the greater volatility equity exposures may express within a portfolio, we may like to maintain lower levels of equity market exposure to avoid being forced to “lock in losses” were funds for some reason required from the portfolio in the shorter term. We think this reminder is particularly relevant for folks who regularly withdraw funds from investment accounts, barring an alternative source of required income during drawdowns.



On the flip side, history shows that exposure to equity markets generally has rewarded those with the patience to endure the drawdowns experienced in the interim. In Figure 3 we show the long-term total returns of the indexes we have shown in the other figures so far. Note that, while the benchmarks with greater exposure to

equity have at times underperformed fixed-income-heavier benchmarks, the longest-term view shows relative performance directly in line with the level of equity within the benchmark.



### Less Risk, But Not Without

No matter the aggregate positioning of a particular portfolio, all investing carries risk. And that means we may on any particular day find ourselves more than a bit less wealthy for the moves the markets have made since prior peaks, even if our portfolios were more heavily weighted toward fixed income. Ample reminder, we saw the domestic fixed income market dive on September 5 on account of a lifting of worries with regard to the broader macroeconomic backdrop and, more specifically, concerns regarding America’s present trade-related tensions with China.

We have experienced historically substantial capital gains within fixed income over the medium term as interest rates have fallen in response to trade and many other investor worries. Though welcome from the perspective of their potentially positive impact on riskier exposures, we may experience additional volatility among bond exposures as any of the grander weights upon investor psyches may lift. Of course, investor psyche may deteriorate anew, in which case further equity volatility may be in store. Either way, we offer the gentle reminder to reach out to your advisor to address any changes in your financial circumstances and comfort with exposure to investment risk.

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The MSCI ACWI Index captures large- and mid-cap representation across 23 Developed Markets countries and 26 Emerging Markets countries. The index covers approximately 85% of the global equity opportunity set. May be referred to as "World" and/or "global" stocks.

The Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index, which includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years.

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