INSIDE ■ Money means emotion ■ A little history lesson on the markets ■ What if this time is different? Why it's important to separate from the herd ■ Keep your view on the horizon ■ We're ready to help you

INVESTING WITH CONFIDENCE

Guidance for resisting emotional investing and staying on track for the long term

History has revealed that crises and extreme circumstances often inspire courage, innovation, and reinvention. That's because we're often forced to change our traditional approaches and paradigms in response to our new environment, and as a result, new and incredible possibilities often emerge. We consider those who can find the opportunity amid challenges to be "thrivalists" at heart. These are people who address difficult circumstances head-on, finding ways to improve, reinvent, and ultimately, thrive.

We're here to help you become a thrivalist with the right investment strategy and approach for both the environment and your personal goals. This "field guide" can help you view the financial markets through the right lens, and ultimately, remain committed to your strategy, so you can thrive now and into the future. **We've all heard the old adage to "buy low, sell high," but the reality is, some investors do just the opposite—they buy high and sell low.** Taking a look back at market history, while factoring in behavioral science, shows us not only why investors react this way, but more importantly, how they can avoid it. If we have a better understanding of market volatility, the risks of certain investment strategies, and the value of a thoughtful investment plan (that you can stick to), we can invest with confidence and stay on track in pursuit of our goals.

When stocks are falling, we're driven by fear, which motivates us to sell.

MONEY MEANS EMOTION

From 1990 to 2020, the S&P 500 Index's annualized gain was 7.5%, while the average equity investor's return was only 2.9%. A difference of 4.6%.* Why is this the case? Behavioral scientists have discovered that money activates the emotional part of our brains, called the amygdala. This part of the brain is commonly known as our "lizard brain," because it's instinctual and drives us to act on emotion without thinking through our decisions.

So when stocks are falling, we're driven by fear, which motivates us to sell—even though it ultimately may not be in our best interest. And when stocks are rising, we're driven by excitement and adrenaline, which motivates us to buy—even when that may not be the best strategy.

This isn't an uncommon issue, either. As a group, investors tend to sell when the market's moving down and buy when it's moving back up. In fact, it accounts for much of the market's volatility.

But going with the flow can mean we could potentially lose out on a lot of money or put our long-term plans at risk.

So how do we handle this age-old issue? We can start by taking a few steps:

- Understand how we're wired to respond to market volatility
- Refresh ourselves on market history
- Look at the risks of following the herd, as well as the potential benefits of going against the flow
- Make a plan to respond to volatility ahead of time—and stick to it

We've already accomplished the first item on this list, so next we'll address the other three. The good news is, our brains are incredible organs. They can be trained to respond a certain way. By knowing ahead of time what to expect and having a plan for how to react, we can fight our natural instincts to react in the short term and potentially have more success investing in the long term.

* Source: LPL Research, Bloomberg, DALBAR, ClearBridge Investments 6/30/21

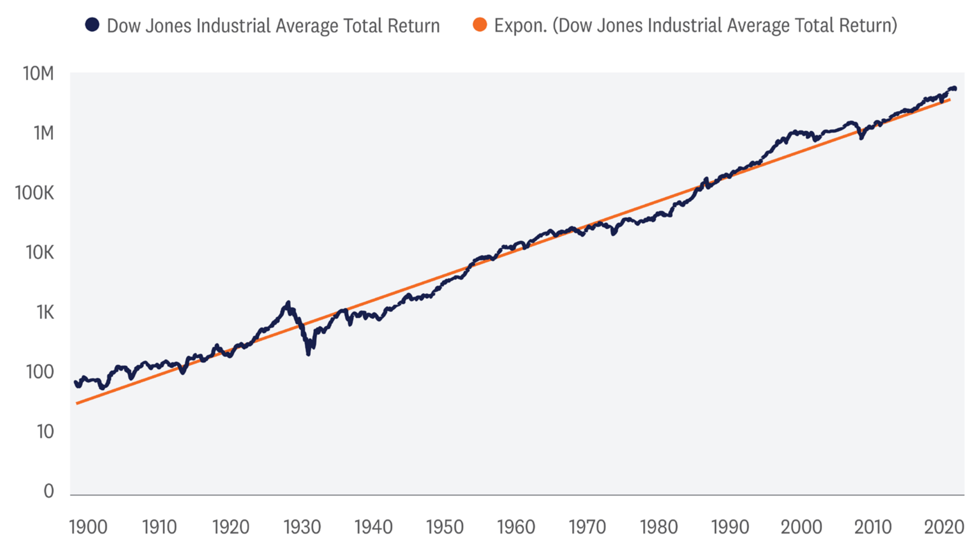
The Dow Jones Industrial Average has trended up overall over the past 120 years.

A LITTLE HISTORY LESSON ON THE MARKETS

Experiencing a major pullback in stocks is never a comfortable feeling. But when stocks seem to keep falling, that's when it's most important to try and block out the daily headlines and keep perspective of how stocks have historically performed over the long term. After all, the majority of market participants are long-term investors, not day traders, as the financial media would have its viewers believe. Short-term volatility comes in waves, but stocks have an extremely attractive track record over the long term. **The Dow Jones Industrial Average, which has a longer history than the S&P 500, has trended up overall over the past 120 years,** despite several downturns throughout history **[Figure 1]**.

1 **DESPITE DROPS, STOCKS HAVE UPWARD TREND IN LAST 120 YEARS**

Percentage of Time the Dow Jones Industrial Average Has Risen Over Various Rolling Time Periods



Source: LPL Research, Ned Davis Research 04/29/22

120-year historical chart of the Dow Jones Industrial Average, from 1900 through 2020.

Past performance is no guarantee of future results.

The average return after a correction was more than 23%.

Even if you look at shorter time periods, since 1950, the S&P 500 has risen 83% of the time across a five-year horizon and 100% of the time across a 20-year horizon **[Figure 2]**. When starting from an already depressed market, the risk/reward tradeoff is even more appealing.

While past performance is no guarantee of future results, history can be a helpful guide for future possibilities. Since 1980, the S&P 500 has had 25 corrections, meaning the index declined 10% or more from a high point, and it always recovered. And not just recovered, but recovered tremendously well. **In fact, the average return after a correction was more than 23%, according to Ned Davis Research.**

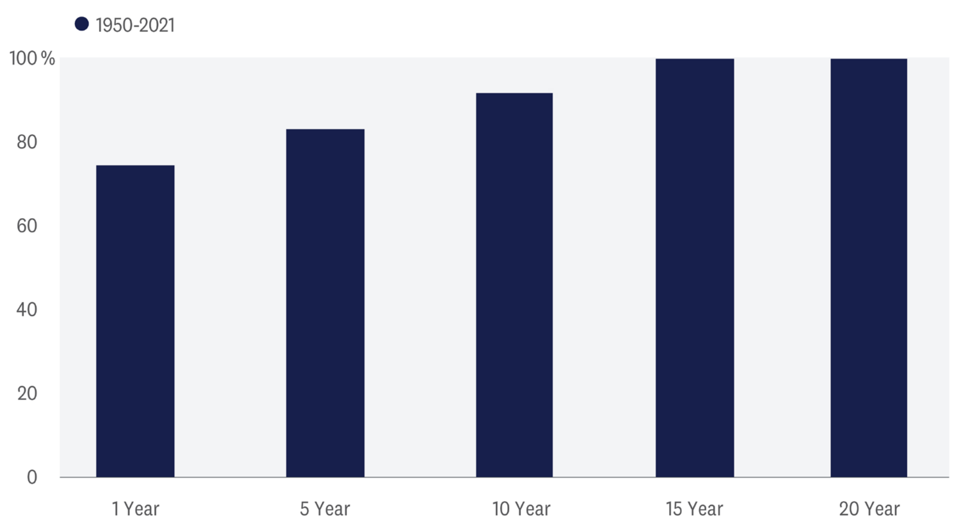
Markets face declines for many reasons: world events, political uncertainty, economic policy, and the performance of certain companies, just to name a few. But overall, market declines happen because of uncertainty. Investors worry that whatever events are occurring could mean businesses lose money, so they sell.

For example, in the COVID-19 crisis investors saw businesses closing and consumers forced to stay at home, which meant those businesses would lose money and be worth less than before. So investors sold. And sold, and sold some more.

But when the future becomes more clear, investors often buy back into the markets. They see potential for making money. In the COVID crisis, when good news hit the wires and states started opening back up, investors bought back in—they saw the potential for businesses to grow again.

If you think about it, this ebb and flow makes sense and is necessary if we're to make money when investing. When stocks decline, there's opportunity to buy at a lower price and get a higher return on the backside. When stocks are high, we can sell, making money, but of course, ultimately forcing another ebb.

2 **STOCKS RISE OVER THE LONG-TERM**



Source: LPL Research, FactSet 04/29/22
Analysis is based on monthly data. Dividends are excluded from the analysis. Indexes are unmanaged and cannot be invested in directly. S&P 500 Index performance before 1957 is based on the predecessor index, the S&P 90. Past performance is no guarantee of future results.

WHAT IF THIS TIME IS DIFFERENT?

Despite what history shows, it's natural to ask ourselves, "But what if this time is different?" Something to keep in mind is that, while never certain, it's logical to believe these patterns will persist in the future—because human nature likely won't change dramatically.

What is likely is that there will always be someone willing to invest in companies for a potential return, driving prices up. This is how money can be made. In fact, it's one of the only ways we can get returns that outpace inflation, which is why many of us invest—and will likely continue to invest, despite temporary dips.

WHY IT'S IMPORTANT TO SEPARATE FROM THE HERD

So, what's the big deal if we follow the herd and sell when prices are going down? Especially if it makes us feel better. We can always buy back in, right? This is what's known as trying to "time the markets." You sell before it declines more and buy just before it goes back up too high. While this may sound tempting, it could end up costing you money. Timing the market incorrectly can set you back significantly. If you sell when the market's declining, you have to figure out exactly when to reenter. If you do this at the wrong time, you "lock in your loss."

This happens because you don't know in advance what the bottom will be—and by the time you figure it out, you're selling close to the lowest point. When you do decide to buy back in, after seeing if the market is truly starting to move upwards once again, prices have already increased.

To explain what this means, let's imagine a scenario. Let's say you invest $10 and the market declines, making your investment worth $5. You sell out. Now you have $5 instead of $10. A few weeks later, that same stock goes back up to $12. But because you sold out, you didn't benefit from that increase. You're stuck with a $5 loss.

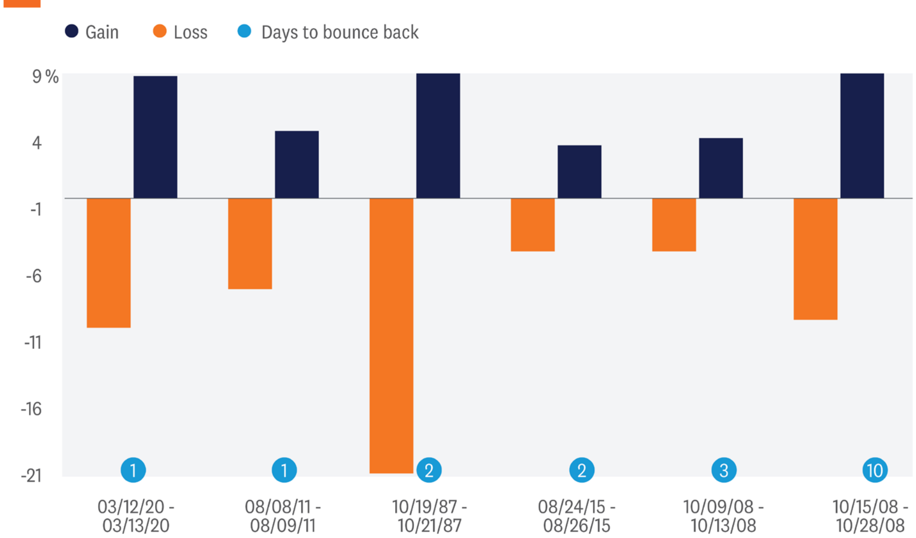
It could continue to increase, but you have a challenge. Before you can make money again, you need it to go up to $19 to make up for the $7 you lost. Then you need it to go up even higher so you can actually make money off your investment. That's a steep hill to climb. If you'd just stayed invested, you'd have made $2 instead of losing $7.

This is a simplified hypothetical example of an investing concept and is not representative of any specific investment. Your results may vary.

Once again, history tells an interesting story. **The investing herd has followed our example above, and attempted to time the markets, potentially losing out on 4.6% in returns over 20 years like the average investor.*** The other problem with timing the markets is that the best days—when you could potentially make the most money—tend to occur right next to the worst days **[Figure 3]**.

*Source: LPL Research, Bloomberg, DALBAR, ClearBridge Investments 6/30/21

3 LARGEST GAINS AND LOSSES OFTEN OCCUR WITHIN DAYS OF EACH OTHER



Source: Calamos Investments, Market Volatility April 2022
Performance data quoted represents past performance, which is no guarantee of future results. The S&P 500 Index is generally considered representative of the U.S. stock market.

If you missed the 20 best days of the year since 1990, you'd be down 24.4% per year

There's no way to know exactly when the market is going to go back up again. Something could even happen after market close one day that causes the markets to increase the next—before you have a chance to buy back in if you've sold out. In fact, if you started investing in 1990 and missed the S&P 500's best day of the year each year, your annual return would be reduced by almost 4%.

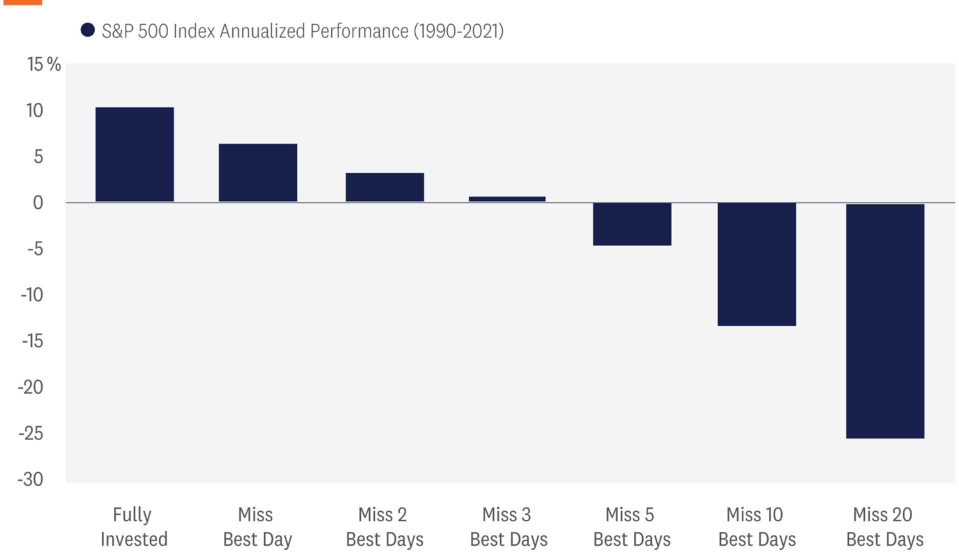
Illustrated in Figure 4 below, the annualized gain for the S&P 500 from 1990 to 2021 was 9.9%. Yet, if you missed only the best day of each year, that return dropped to 6.1%, a difference of 3.8%. Miss the best two days of each year, and you would be up less than 3% a year. **Taking it to the extreme, if you missed the best 20 days of each year, you'd be down 24.4% per year** [Figure 4].

No one can consistently pick the best or worst days of the year, which is why it can be so dangerous to attempt timing the market. If you miss one or two big days, compounded over time, this can greatly impact your portfolio.

By going against the flow and staying invested in your long-term plan, you could potentially end up with returns—like the S&P 500 Index return of 9.96% since 1990*—that can help you work toward your future goals.

* Dalbar Inc., "Quantitative Analysis of Investor Behavior," March 2020.

4 MARKET TIMING CAN BE COSTLY



Source: LPL Research, FactSet 04/29/22
All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.
S&P 500 Index performance before 1957 is based on its predecessor index, the S&P 90.

KEEP YOUR VIEW ON THE HORIZON

We work with you to construct a plan designed to weather short-term market declines and help you work toward your goals over the long term. We aim to reach for your goals, which are certain, rather than market performance, which is uncertain. Chasing market performance could also introduce unnecessary risk, whereas pursuing your goals ensures we're managing risk where we can and seeking to build value over the long term.

When working with us to build and evaluate your plan, we encourage you to view it in light of its long-term objectives. We anticipate and plan for market dips and spikes and keep our eye on the horizon when constructing your strategy. **By keeping your view focused on the long term, you can reduce the emotional impact of short-term changes in account value.** If the past has told us anything, it's that the value will likely be different tomorrow!

I'm here to coach you through challenging market environments and help you maintain your long-term view. I'll also look for opportunities to make adjustments as needed, and we can always revisit your goals and risk tolerance as your life or perspective changes. Together, we can make a plan for any market environment. By sticking to it, you help increase the chances of reaching your goals.

Now that you know how your brain may react, you can prepare for it ahead of time. You know the markets historically tend to go up over time, and you know the risks of following the herd and pulling out of the market when times look scary. You have all the tools you need to remain committed to your long-term plan, which means you can stay on track toward your goals.

I'm also committed to helping you through both exciting and challenging times. If you need an accountability partner, and someone to help you "train your brain," I'm here for you. We'll get through whatever the market has to throw at us and come out the other side stronger for it.

Please reach out to me if you'd like to discuss your strategy.