WINTHROP WEALTH PRINCIPLES FOR INVESTING IN THE STOCK MARKET

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At Winthrop Wealth, we apply a total net worth approach to wealth management that combines both comprehensive financial planning and investment management. The financial plan defines cash flow needs, optimizes account structures, considers tax minimization 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 methodology based on prudent risk management, asset allocation, and security selection.

We help our clients navigate challenging market environments by ensuring their short-term cash flow needs are met while managing the rest of their investments in a globally diversified portfolio. We continue to believe this is the optimal approach for helping our clients ultimately reach their goals and objectives.

Market volatility is inevitable. Therefore, we always stress the importance of maintaining a long-term viewpoint and avoid making value destructive emotional decisions. We do not believe in market timing.

The following principles can help investors maintain the proper mindset for investing in the stock market:

- **The stock market has historically increased over time:** The S&P 500 has generated a total annualized return of +9.3% since 1928. A $1,000 investment in 1928 would be worth about $3.8 million today. Remember that this period included eleven bear markets, fifteen recessions, and dozens of corrections and pullbacks.

- **Returns are not linear (December 2019):** The stock market increased in 67 (73%) calendar years and decreased in 25 (27%) calendar years. In other words, while annual market returns have been positive more often than negative, equities do not rise by an equal amount every week, month, quarter, or even year.

- **Declines are common (November 2018):** Since 1928, the S&P 500 has averaged a peak-to-trough decline of -15.8% each year (including 2020's price decline of -33.8%). The market increases over time despite plenty of drops along the way.

- **Missing the best days in the market destroys long-term returns (January 2019):** From 2000 through 2019, the S&P 500 delivered a total annualized return of +6.1%. This period included roughly 5,000 days when the stock market was open. If an investor missed only the 10 best days in the market, their return would have been +2.2%. An investor who missed the 20 best days would have lost money with an annualized return of -0.1%. To add to the difficulty, many of the best days in the market occur during periods of extreme stress and volatility.

- **The average investor under-performs due to market timing mistakes (May 2020):** Annualized returns from 2000 through 2019: Stocks (S&P 500): +6.1%. 50/50 Portfolio of Stocks and Bonds: +6.0%. Bonds (Bloomberg Aggregate Bond Index): +5.0%. Average Investor: +2.5%. Inflation: +2.2%. A study from Dalbar Inc. cites market timing as main factor for poor investor performance.

- **Remember the benefit of diversification and time (March 2020 Update):** Diversification and time are an investor's two best friends. Diversified portfolios can lead to more consistent and less volatile results than a single asset class. We know that markets can be extremely volatile in the short-term but difficult periods do not last forever. The longer the investment time horizon the greater the odds of positive returns.