



Insights in Volatile Times

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By Brian Luster

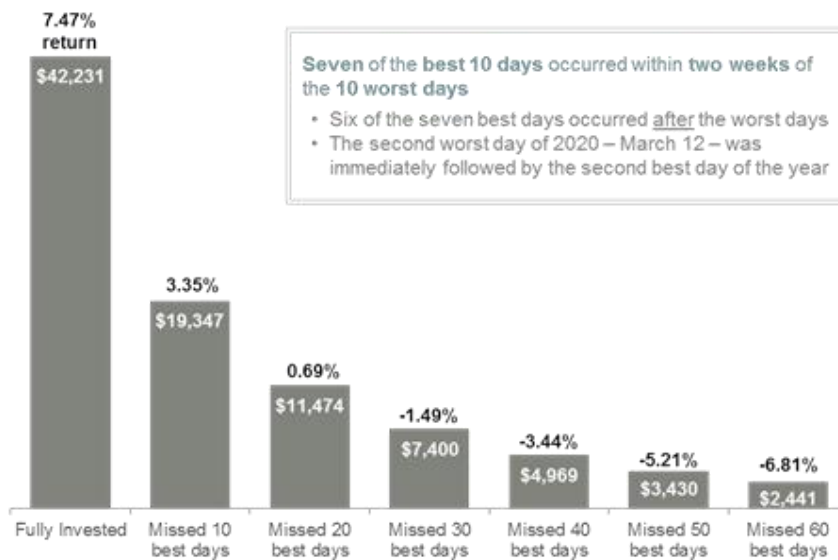
In light of the ongoing market volatility and Russian invasion of Ukraine, we wanted to proactively share some of our insights to help you better understand the dangers of letting emotions impact your investment goals and philosophy based on the ongoing geopolitical theater.

Impact of being out of the market¹

During periods of extreme market declines, a natural emotional reaction can be to "take control" by selling out of the market and seeking safety in cash. This is due to 'loss aversion' - or the fact that losses hurt more than gains feel good. The results of this action can be devastating because during periods of market volatility, the best days are likely to occur close to the worst days. This chart compares an individual who was fully invested for the past 20 years in the S&P 500 to investors who missed some of the best days as a result of being out of the market for a period of time. Missing the top 10 best days will more than halve the annualized return; missing the top 30 days will result in a negative annualized return on the original \$10,000 investment. Staying the course with a diversified long-term investment strategy may produce a better investment outcome.

Returns of the S&P 500

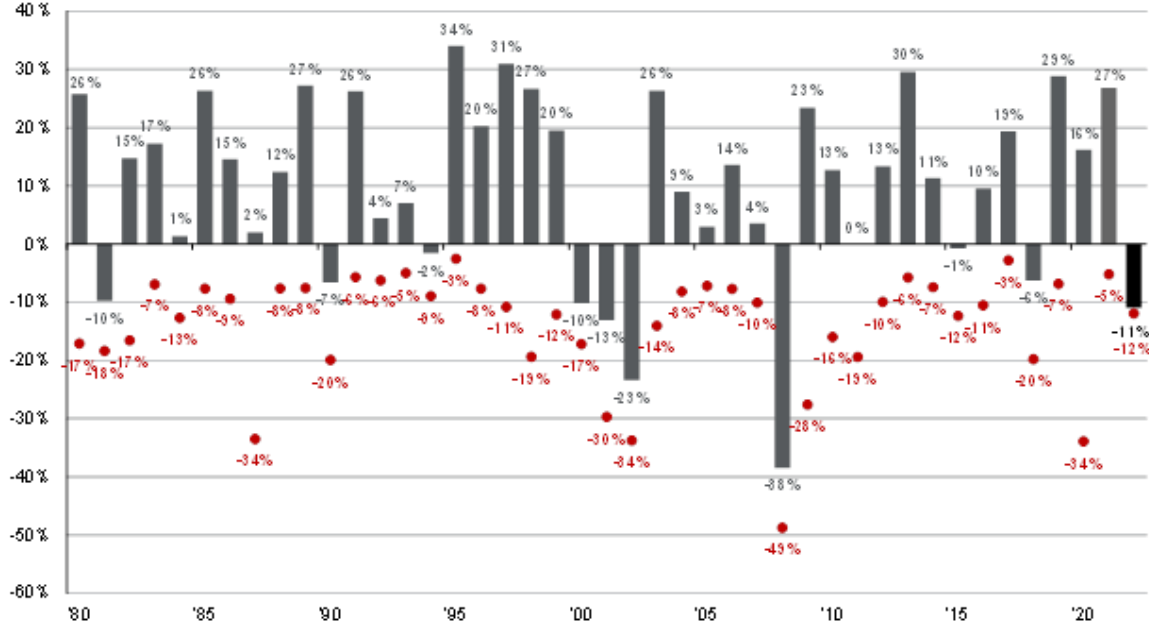
Performance of a \$10,000 investment between January 2, 2001 and December 31, 2020



Annual Returns and Intra-Year Declines

This chart demonstrates that volatility, while painful, is normal and to be expected. Despite average intra-year declines of 14.0%, annual returns were positive in 32 of 42 years. Year to date the S&P500 is down ~10%.

S&P intra-year declines vs. calendar year returns²

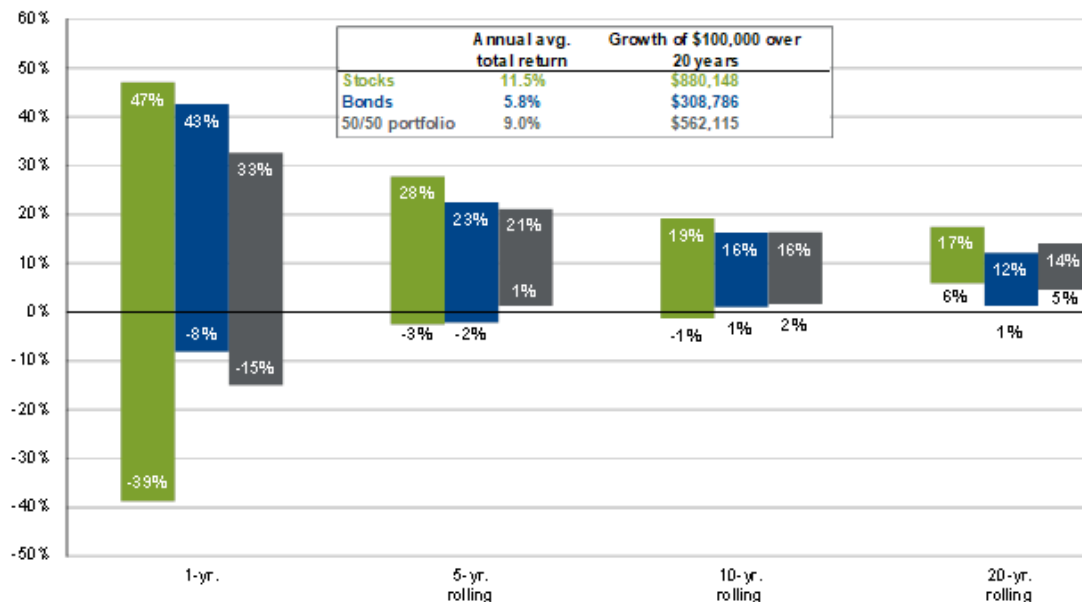


Time, Diversification, and the Volatility of Returns

Here we show the importance of time horizon for an all equity, all fixed income, and 50%/50% blended investor. As you can see, you must live through the potential bad 1-year to get the benefit of the longer-term performance you get from equities, bonds, and a blend.

Range of stock, bond and blended total returns³

Annual total returns, 1950 - 2021



Asset Class Returns

The Asset Class Quilt Chart below shows that if you had let your emotions impact your investment discipline over the past 15 years and exited the markets, the only thing that did worse than sitting in cash was commodities.

Asset Class Quilt Chart⁴

															2007 - 2021		
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	Ann.	Vol.
EM Equity 38.8%	Fixed Income 6.2%	EM Equity 79.0%	REITs 27.8%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.8%	Small Cap 20.0%	REITs 41.3%	Comdty. 15.3%	Large Cap 10.8%	REITs 23.2%
Comdty. 18.2%	Cash 1.8%	High Yield 68.4%	Small Cap 28.9%	Fixed Income 7.8%	High Yield 18.8%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.8%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 0.0%	Small Cap 8.7%	EM Equity 23.9%
DM Equity 11.8%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.8%	DM Equity 23.3%	Fixed Income 8.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.8%	Large Cap 18.4%	Comdty. 27.1%	EM Equity -1.9%	REITs 7.6%	Small Cap 22.5%
Asset Alloc. 7.1%	High Yield -28.8%	REITs 23.0%	Comdty. 18.3%	Large Cap 2.1%	DM Equity 17.8%	Asset Alloc. 14.8%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.8%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.8%	Small Cap 14.8%	Fixed Income -4.2%	High Yield 8.8%	Comdty. 18.1%
Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 16.1%	Cash 0.1%	Small Cap 18.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.8%	Asset Alloc. 14.8%	Large Cap -4.4%	Asset Alloc. 15.8%	DM Equity 8.3%	Asset Alloc. 13.6%	High Yield -4.2%	Asset Alloc. 6.7%	DM Equity 13.9%
Large Cap 6.5%	Comdty. -35.8%	Large Cap 28.6%	High Yield 14.8%	Asset Alloc. 0.7%	Large Cap 18.0%	REITs 2.8%	Cash 0.0%	Asset Alloc. -2.6%	REITs 8.8%	High Yield 10.4%	Asset Alloc. -5.6%	EM Equity 13.9%	Fixed Income 7.6%	DM Equity 11.8%	DM Equity -5.7%	EM Equity 4.8%	Large Cap 18.8%
Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.8%	High Yield 7.0%	High Yield 1.0%	Asset Alloc. -8.2%	DM Equity 4.1%	High Yield 12.2%
High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.8%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.6%	Cash 0.0%	Large Cap -11.2%	Fixed Income 4.1%	Asset Alloc. 11.7%
Small Cap -1.8%	DM Equity -43.1%	Fixed Income 6.9%	Fixed Income 8.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.8%	DM Equity 1.6%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.6%	Small Cap -13.3%	Cash 0.8%	Fixed Income 3.3%
REITs -16.7%	EM Equity -51.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -8.6%	Comdty. -17.0%	Comdty. -34.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.3%	REITs -5.1%	EM Equity -2.2%	REITs -13.8%	Comdty. -2.8%	Cash 0.7%

Final Thought

Looking back over the last 12 geopolitical, macro volatile events that have occurred going back to the Israeli Arab War / Oil Embargo in 1973, the average duration of the selloff in the market lasted 12 days, with the average equity market selloff of ~6.5%, and the recovery taking about 137 days. Based on that history, it points to the importance of remaining invested, rebalancing portfolios, and taking advantage of market volatility through tax loss harvesting.

REFERENCES

¹ Source: JP Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P500 Total Return Index. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. Hypothetical returns are gross of fees, reflect dividend reinvestment, and do not reflect actual trading, liquidity constraints, fees and other costs. Past performance is not indicative of future returns. Data as of December 31, 2020.

² Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2021, over which time period the average annual return was 9.4%. U.S. Data are as of February 23, 2022.

³ Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2021. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Aggregate thereafter. Growth of \$100,000 is based on annual average total returns from 1950 to 2021. U.S. Data are as of February 23, 2022.

⁴ Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management. Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2006 to 12/31/2021. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns. U.S. Data are as of February 23, 2022.

ABOUT THE AUTHOR

BRIAN LUSTER is a Principal and Chief Investment Officer of Collective Family Office located in York, Pennsylvania. With over 20 years of Wealth Management experience, Mr. Luster has previously served as Founder and CEO of a boutique Multi Family Office in New York City, as the Managing Member and Portfolio Manager of a long/short US event-driven value-oriented hedge fund in New York, and as a Senior Wealth Manager for BNY Mellon Wealth Management in Central Pennsylvania.

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