KINGSVIEW
INVESTMENT MANAGEMENT

PORTFOLIO MANAGER INSIGHTS

WEEKLY INVESTOR COMMENTARY | MAY 26, 2021

Investment Committee

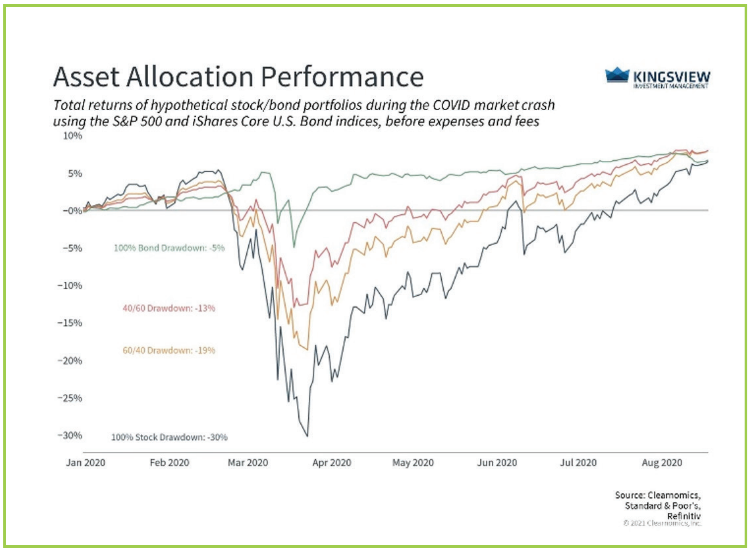
For some investors, it may feel as if financial markets are more uncertain than ever. Day-to-day stock market swings have increased due to concerns over inflation, interest rates, tax policy, the Fed and more. Those who follow financial headlines are met with topics such as cyberattacks, economic uncertainty, and on-going COVID-19 outbreaks in parts of the world. Even cryptocurrencies, which experienced a dramatic bull run this year, have plummeted over the past week. Against this backdrop, how can investors stay focused on their long-term financial plans?

The reality is that stock market swings are not only normal but have been quite calm by historical standards. The VIX index, a popular measure of stock market volatility, is right around the long-term average of 18. Despite some day-to-day swings, there have been no pullbacks as large as 5% this year, even though the typical year experienced several. The biggest peak-to-trough pullback has only been 4%, compared to the annual average of 15%. Thus, there is a disconnect between the rocky waves that many investors perceive and the natural ebbs and flows of the market.

Of course, the calm of the broader market may not apply to those with concentrated positions in hard-hit areas. It's also undeniable that stock market valuations are above-average, begging the question of whether they are too optimistic. So, for some investors, there may be a fear that there is a market-disruption lurking around the corner.

For everyday investors, there are three broad ways to manage these concerns. The first is to simply retreat to cash and forego the wild swings of the stock and bond markets. On paper, cash can appear to be the most stable asset since account balances don't change on their own. However, this can be misleading since the true purchasing power of cash can erode over time, especially if inflation is accelerating. Moreover, this doesn't consider the opportunity cost of missing market gains. Together, these unseen "losses" can be significant over long periods of time.

DIVERSIFIED PORTFOLIOS HELD UP AGAINST THE COVID-19 MARKET CRASH



KEY TAKEAWAYS:

1. **This chart shows the hypothetical performance of various asset allocation portfolios during the first eight months of 2020. A proper mix of stocks and bonds not only performed better during the market crash but recovered more quickly and held its value longer.**
2. **Most importantly, investors who experience less volatility in their portfolios are also less likely to overreact.**

The second way to respond to market swings is to trade in and out of the market. Trying to time the market is alluring since the benefits seem large, especially in hindsight. Those who could have foreseen both the pandemic market crash and the market rebound shortly thereafter would have profited handsomely.

Of course, the problem is that decades of research have shown that it is very difficult - and perhaps impossible - to predict short-term market movements accurately and consistently. Events that are expected to move markets often do not, and events ignored by investors often do. Perhaps more important is the fact that investors often suffer from behavioral biases. After a market crash, when stocks are objectively the most attractive, is when investors are often the most fearful. After the market has recovered, and stocks are no longer cheap, is often when investors are the most optimistic.

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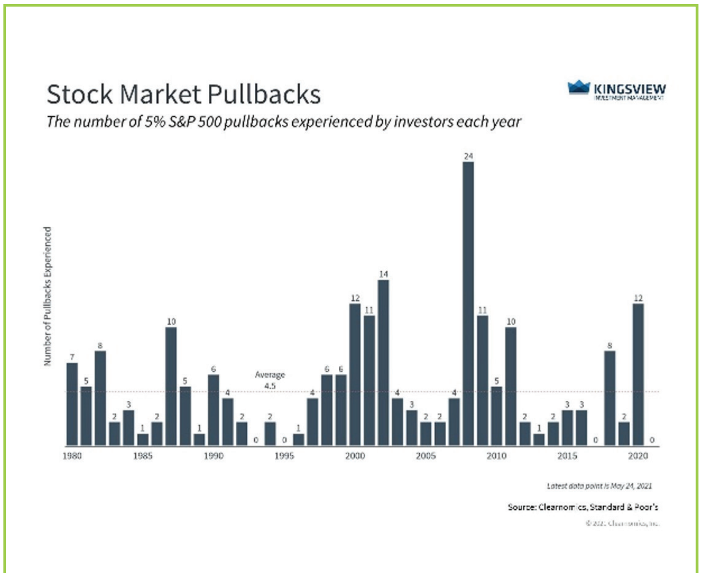
Thus, history shows that the third and best way to respond to volatility is to stay invested in a well-diversified portfolio. Rather than swerving about to avoid a few potholes, the objective is to maintain a portfolio that can withstand the bumps.

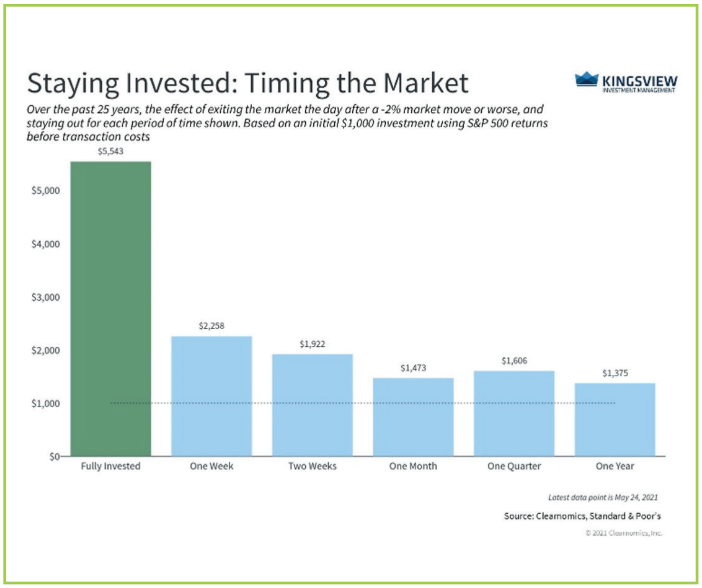
DESPITE UNCERTAINTY, THE STOCK MARKET HAS BEEN CALM



KEY TAKEAWAYS:

1. **By historical standards, the stock market has been quite calm in 2021. This may be surprising to many investors who experience large day-to-day swings and see alarming headlines regularly.**
2. **The largest peak-to-trough decline in the S&P 500 this year has only been 4%. Investors should not be surprised by greater levels of volatility.**

SIMPLY STAYING INVESTED HAS PAID OFF HISTORICALLY



KEY TAKEAWAY:

1. **History shows that those who can stay invested in properly diversified portfolios, and avoid the temptation of swerving in and out of markets, are in a better position to achieve long-term goals.**

The benefits are numerous. Well-constructed portfolios take advantage of diverse asset classes to help smooth returns and risk over time in order to achieve financial goals. They can be optimized for taxes, income, growth and other important factors. Tactical asset allocation and portfolio tilts are still possible but can be done in the context of a broader plan. Perhaps most importantly, a diversified portfolio can help investors to sleep better at night without worrying about every market hiccup.

Long-term investors ought to keep these lessons in mind as market uncertainty grows. This is especially the case when volatility truly does pick up.