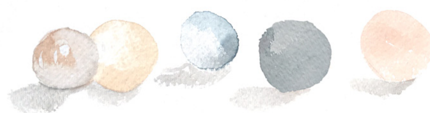


Psych!

1ST QUARTER 2023 COMMENTARY • KORI ALLEN, CFP®

Did you ever have someone play that game on you in school? Or maybe, you played that game on someone? Tricksters would make up a story or pretend to start throwing a ball at your face or something similar, and as soon as they see agitation, they'd yell "psych!". Theoretically it was funny to provoke fear, stress or anxiety. Now we play this game every day, depending upon how many news alerts, notifications or scrolling notices on a screen a person experiences. Most news feeds our normal human bias to perceive or anticipate negativity four times more than positive outcomes. Compound this with digital information consumption where we don't read as carefully, nor in depth, than if it was on paper. This all conspires against our intent to invest for the long-term. It's increasingly challenging for investors to hold the course amidst this barrage of short alarmist headlines. What's more upsetting: "The Dow is down 143 points" or "The Dow is down .42%"? The information is the same, yet the media reports the former, since the latter isn't as engaging.

We recently watched this in real time with the collapse of Silicon Valley Bank. Indeed, their executives did not manage their capital well, yet they did responsibly arrange for financing to resolve their capital shortcomings. They also did not manage their communications well. The ultra-connected Silicon Valley depositors and investors quickly spread their alarm and distrust, taking down the bank. The rapidity and magnitude of the fear was almost breathtaking. Understandably, we've all lived with stories of the Great Depression, so a bank run can generate inordinate fear, but we see this in less dramatic ways in individual stock swings or greater market volatility too.

On the following page is possibly a familiar chart depicting why we investment advisors regularly remind our clients to hold for the long term. The information in the box is most important:

- Seven of the 10 best days occurred within two weeks of the 10 worst days.
- Six of the seven best days occurred after the worst days.
- The second worst day of 2020 was immediately followed by the second-best day of the year.

A negative reaction can undermine an investors success.

As we build our portfolios for you, our stock selection criteria focus upon return on investment and the price we pay for the investment. This ratio, ROI/WACC, in our model portfolios, is about 30% greater than the benchmark, ACWI (All Country World Index). Look at this similarly to financing your home. You endeavor to finance at a low rate, and over-time and good stewardship of your home, you build equity. If you've looked at your mortgage statement shortly after establishing a loan, you might be discouraged that the equity hasn't grown. Yet, over a year and years of reliable, consistent loan payments, home maintenance and upgrades, your discipline pays off. You are rewarded for your focus on the big picture. Sometimes,

"Patience is bitter, but it's fruit is sweet"

JEAN-JACQUES ROUSSEAU

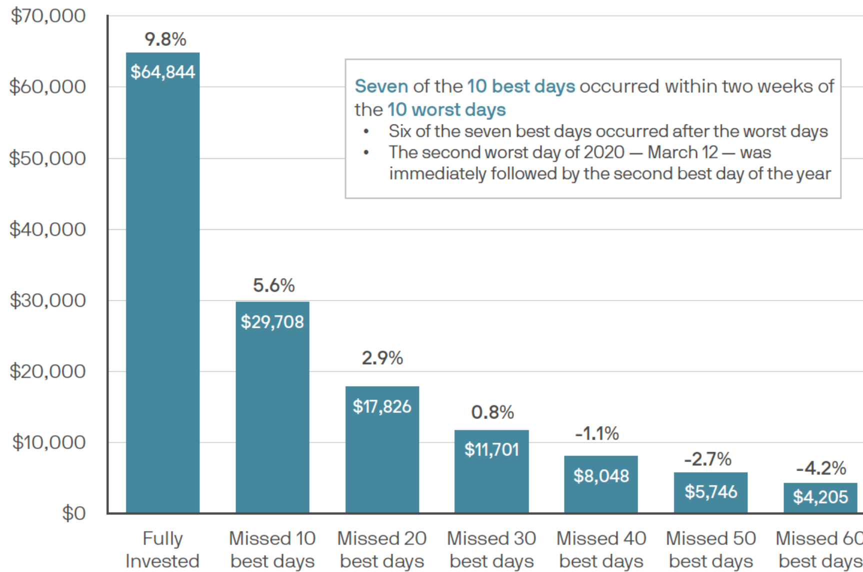
Impact of being out of the market

GTR 46

Investing

Returns of the S&P 500

Performance of a $10,000 investment between January 1, 2003 and December 30, 2022



Source: J.P. Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. 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. The hypothetical performance calculations are shown gross of fees. If fees were included, returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2022.

Plan to stay invested

Losses hurt more than gains feel good. Market lows can result in emotional decision making.

Taking "control" by selling out of the market after the worst days is likely to result in missing the best days that follow. Investing for the long term in a well-diversified portfolio can result in a better retirement outcome.

J.P.Morgan
ASSET MANAGEMENT

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