THEOREM
WEALTH MANAGEMENT

Surviving Volatility

Your guide to navigating market swings

SURVIVING VOLATILITY

Often, the hardest part of investing is the one we have the most control over – our emotions. Ups and downs in the market, as in life, are normal. It's your reaction to them that will make the difference in your strategy. Volatility itself is not destructive to your wealth unlike the reactive investing decisions that are made when stocks are falling.

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AN INTRODUCTION TO MARKET VOLATILITY

Almost all assets see fluctuations in their prices over time, but none are more discussed than the price swings in the stock market. People tend to talk about market volatility most often when stocks are falling. Watching your investment portfolio decline can extremely stressful. We have helped guide numerous clients through tough times is something, and we understand the emotions that happen when the market begins to fall. It is not volatility in itself that will negatively impact your long term financial goals, it's your reaction to them that will make the difference in your strategy.

> When markets become volatile, a lot of people try to guess when stocks will bottom out. In the meantime, they often park their investments in cash. But just as many investors are slow to recognize a retreating stock market, many also fail to see an upward trend in the market until after they have missed opportunities for gains.

Missing out on these opportunities can take a big bite out of your returns. Consider that on average, for the 12 months following the end of a bear market, a fully invested stock portfolio had an average total return of 37.1%. However, if an investor missed the first six months of the recovery by holding cash, their return would have been only 7.6%.*

*Source: Ned Davis Research Group

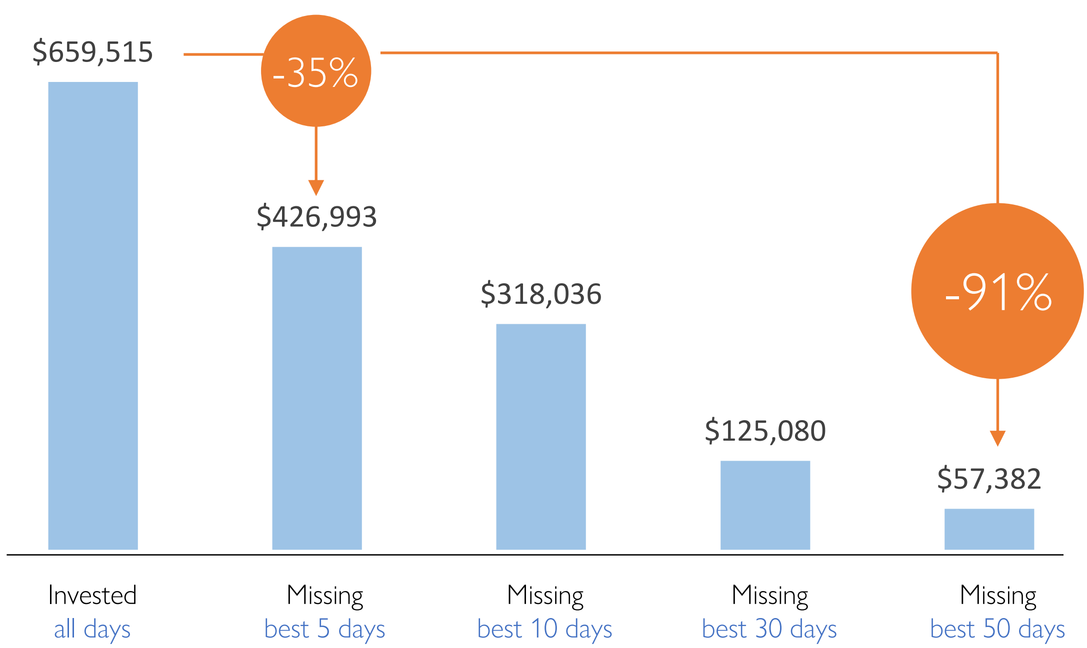
AN INTRODUCTION TO MARKET VOLATILITY cont.

To time the market successfully, you have to know when to get out and when to get back in. Getting one right is tough. Getting both right? Nearly impossible. But, if you don't stay fully invested in the market, you may miss out on the best days.

> "The market seems to be up one day and down the next. I'd rather wait to get in." – Emotional Investor

Missing out on best days can be costly

Hypothetical growth of $10,000 invested in S&P 500 Index
January 1, 1980 – December 31, 2018*



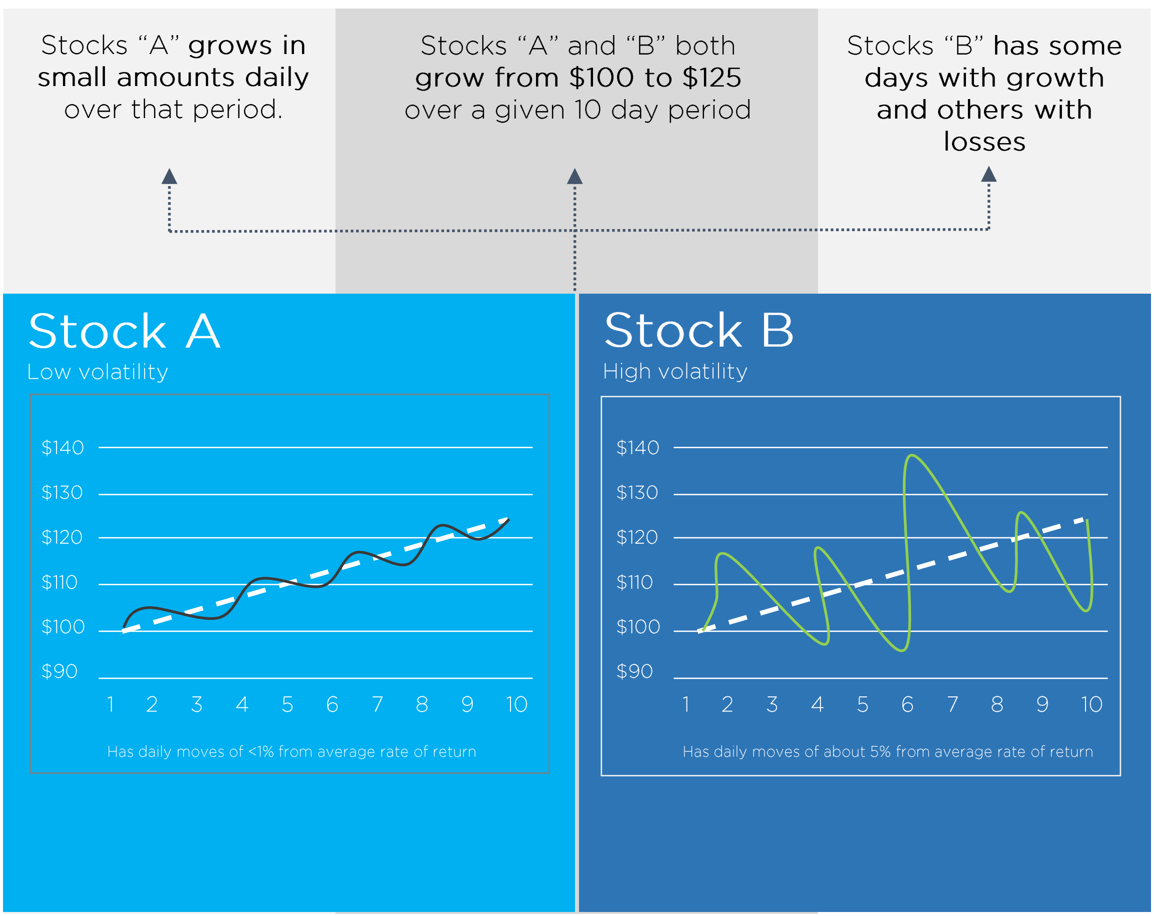
*Past performance is no guarantee of future results. Source FMRCo

WHAT IS MARKET VOLATILITY?

Volatility reflects the constant movement up and down (and back again) of investments. To be more technical, it's a measure of how consistently an investment or index has performed—or not—compared with either a benchmark or its own average. It can refer to a single investment, like a particular stock, or an entire market.

A simple look at volatility.

Hypothetical performance of 2 stocks: "Stock A" and "Stock B"



Both Stock A and Stock B

are worth the same amount in terms of dollars at the beginning and at the end. Both had the same average growth rate over the period. – Because Stock B had a wider range of changes day-to-day, we can say it has been more volatile over the period

HOW IS VOLATILITY MEASURED?

Volatility for an individual stock is measured by standard deviation. This metric reflects the average amount a stock's price has differed from the mean over a period of time. While understanding the volatility of an individual investment is important, many investors may look to understand the broad market volatility.

THE VIX

The stock market is a broad measure of the economy and is affected by many variables, such as interest rates, inflation and geopolitical events. To help investors measure volatility, the Chicago Board of Options Exchange introduced the Volatility Index, called VIX. Being a forward looking index, it is constructed using the implied volatilities on S&P 500 index options (SPX) and represents the market's expectation of 30-day future volatility of the S&P 500 index.

INTERPRETING THE VIX

The VIX is quoted in percentage points and represents the expected movement in the S&P 500 over the next-30 day period annualized. It is the measure of the market's perceived volatility. If the reading is 10, this translates into an expected annualized change of 10 percent over the next 30 days. This means that the market expects the S&P 500 to move up or down over the next 30-day period by 2.9 percent, which is 10 divided by the square root of 12. A high VIX doesn't necessarily indicate that the stock market will reverse course and decline suddenly. However, a high VIX reading is an indication that investors anticipate huge movements in the stock market.

The VIX is sometimes called the 'fear index'. A high VIX could mean fear is high and therefore most investors have sold allowing the market to rally. Yet seasoned traders who closely monitor the markets usually buy stocks and index options when the VIX is high.

When the VIX is low, it usually indicates that investors believe the market will head higher. This could mean investors are being too complacent and that the market may soon head lower because most investors are 'all in'.

A HISTORICAL LOOK AT THE VIX

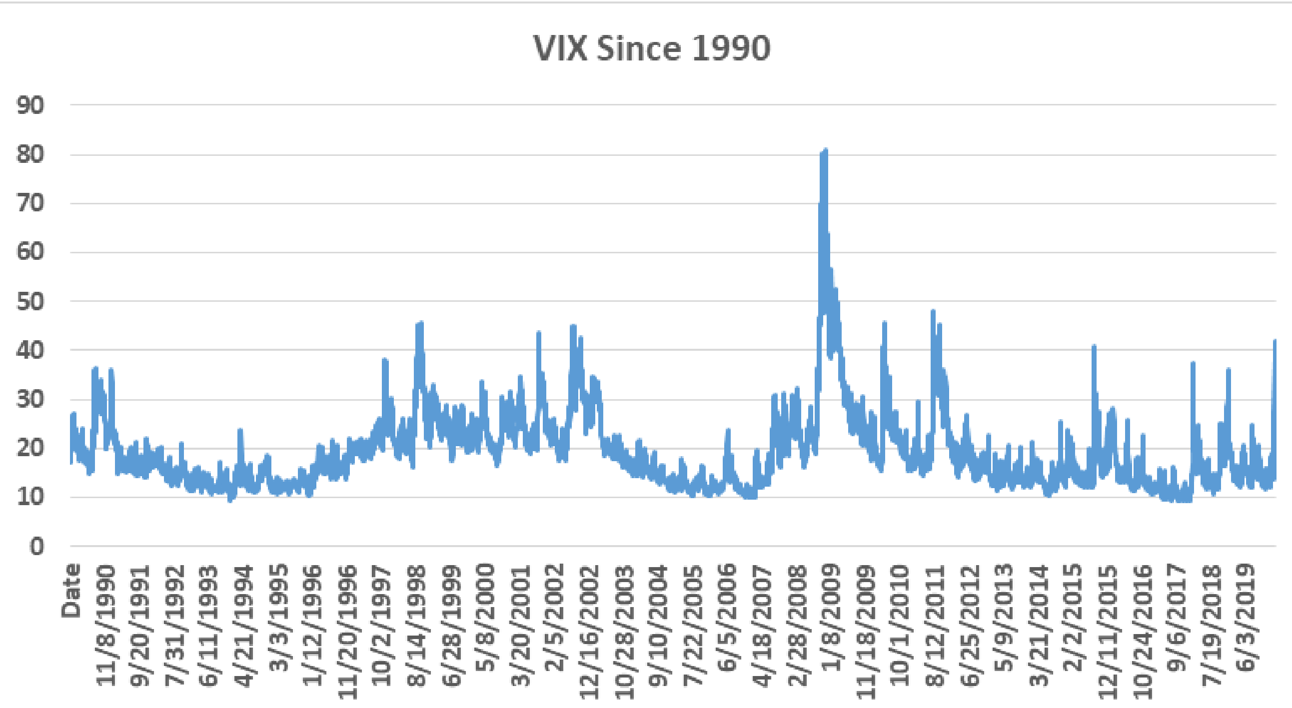


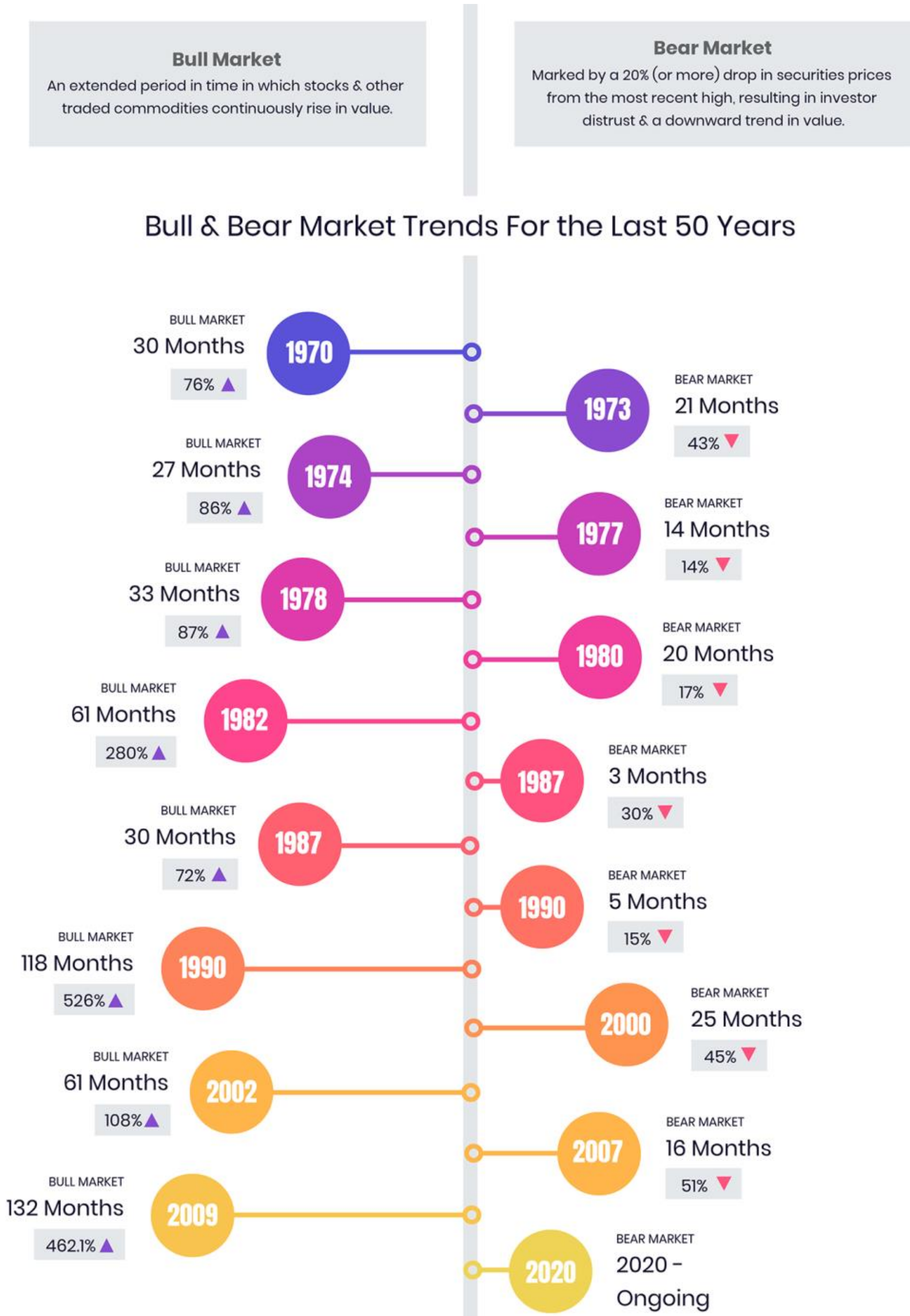
Chart 1. The VIX since 1990

VIX Memorable Moments

- June 2016 - The day of the Brexit vote, the VIX was 25.8.
- August 2011 - When the U.S. got downgraded by S&P the VIX was 32.0.
- Sep 15, 2008 - The day that Lehman collapsed, the VIX was 31.7
- Mar 14th, 2008, - The day that Bear Sterns went down the VIX was 31.2.
- Highest – 82.69 March, 2020. COVID 19 Pandemic Bear Market
- Previous High – 80.74 November, 2008. Financial Crisis
- Lowest – 9.14 November, 2017

STOCK MARKET CYCLES

While the stock market can be volatile at any time, it tends to go through cycles. Generally, stock market cycles have two main phases: Bull and Bear markets. Often called the “Fear Index”, the VIX is typically associated with bear markets, which are typically shorter than bull markets.



*Past performance is no guarantee of future results. Source Putnam and Marketwatch

NAVIGATING VOLATILE MARKETS

A market without volatility would be unnatural, like an ocean without waves. The free market, like the open ocean, is constantly moving. For some investors, market moving waves can be exciting, providing a buying opportunity of mispriced securities. But for most investors who focus on their long-term financial goals, the waves in the market can feel violent and threatening.

When stock markets start tumbling, daily injections of bad news may sound like it will never end. It can spark anxiety, fuel uncertainty and trigger radical decisions in even the most seasoned investors.

But panic isn't a strategy. It's important to keep perspective when markets get choppy. Here are four strategies to consider when volatility strikes.

1. Recognize your emotions
2. Resist panic
3. Revisit your financial plan
4. Look for opportunity

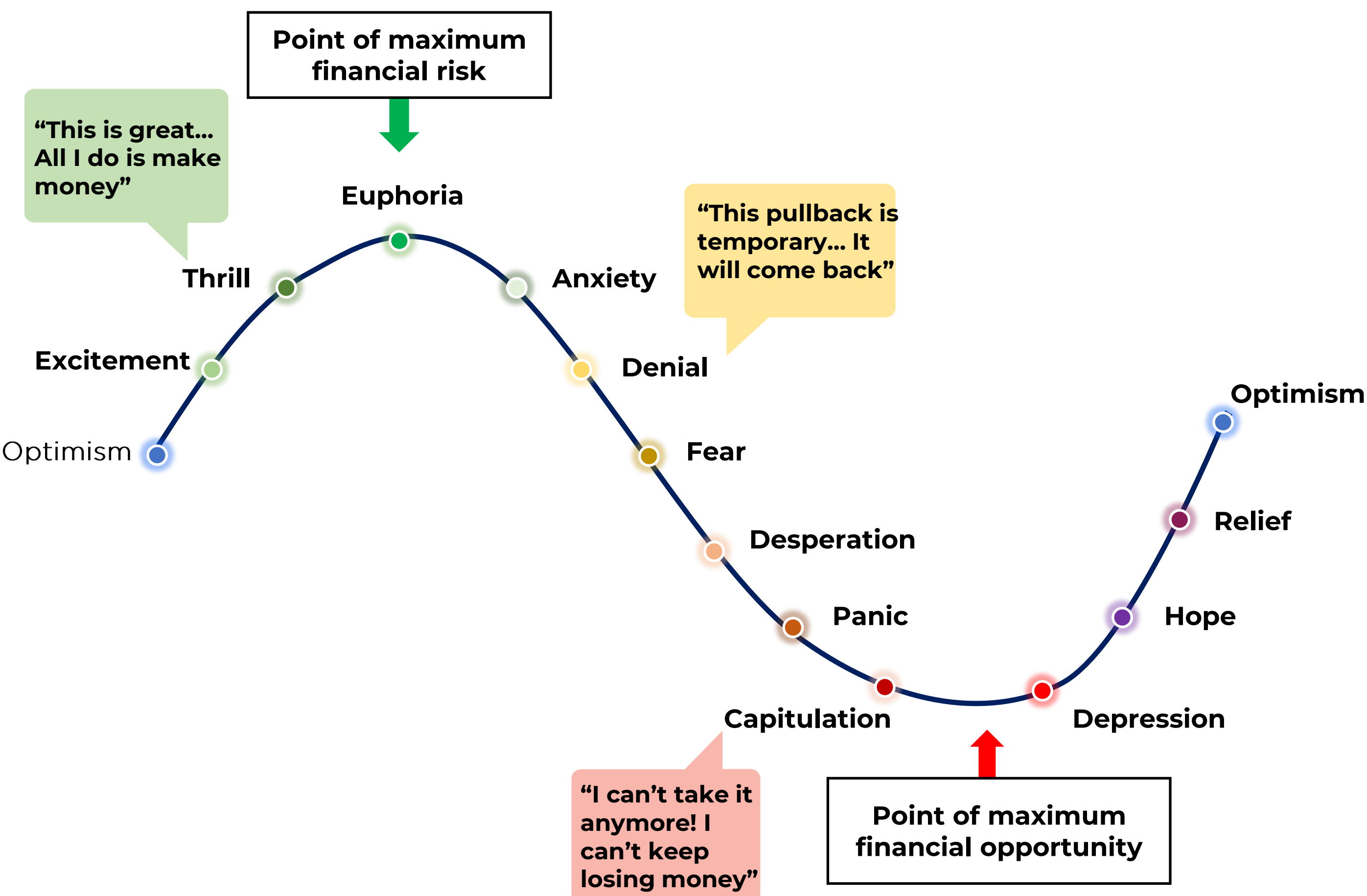
> Long-term investing discipline is so difficult for many people because the instincts that serve humans well in day-to-day life work against us when the stock market enters the equation. "We're hard-wired to see recent events as more predictive of the future than the distant past."
>
> - Steve Wendel, Head of behavioral sciences at Morningstar

RECOGNIZE YOUR EMOTIONS

Volatility in the market is normal, and feeling uneasy about a lower portfolio value is normal too. Historical analysis shows that pullbacks of 5% have occurred about once a quarter, and pullbacks of 10% are likely to occur once per year. Large pullbacks greater than 20% tend to occur just once per market cycle.*

I often hear many investors quote Warren Buffett's saying "Be Fearful When Others Are Greedy and Greedy When Others Are Fearful". I rarely see it actually applied in the real world. The emotional rollercoaster that most investors face can be challenging to ignore.

INVESTOR EMOTION CYCLE



*Source: JPM Asset Management

RECOGNIZE YOUR EMOTIONS cont.

Regardless of how disciplined, humans often trade with behavioral biases that cause them to act on emotion. This is the foundation of behavioral finance, a field of study that combines psychology with finance and economics. Studies have shown that investors have behavior biases that impact their investment decisions more than empirical data. Recognizing a behavioral bias can help keep emotions in check during times of extreme volatility. Here are some biases and how they might impact your investment decisions.

LOSS AVERSION

What is it?	How does it impact investors?
People typically feel the pain of losses much more than the joy from gains	Loss aversion tends to lead individuals to hold on to losing assets to avoid the pain of realizing a loss.

RECENCY BIAS

What is it?	How does it impact investors?
When investors put an emphasis on recent events and leads to projecting recent market conditions into the future.	Investors' buying decisions can be swayed by the past returns of investments. Causing investors to take more risk in bull markets and miss opportunities in bear markets.

RECOGNIZE YOUR EMOTIONS cont.

CONFIRMATION BIAS

What is it?

People tend to look for evidence that confirms their existing beliefs while ignoring other information that may contradict their views.

How does it impact investors?

Investors might ignore negative information about a certain investment which could be a warning sign against loss, or an opportunity for growth that could be missed out on.

STATUS QUO BIAS

What is it?

People tend to react to new circumstances by doing nothing instead of making appropriate changes because they are comfortable with things as they are.

How does it impact investors?

Investors might end up with portfolios that are inappropriate for their financial goals based on changes in their circumstances. For example, people tend to not make changes to their retirement portfolios even as their time horizon and market cycles change.

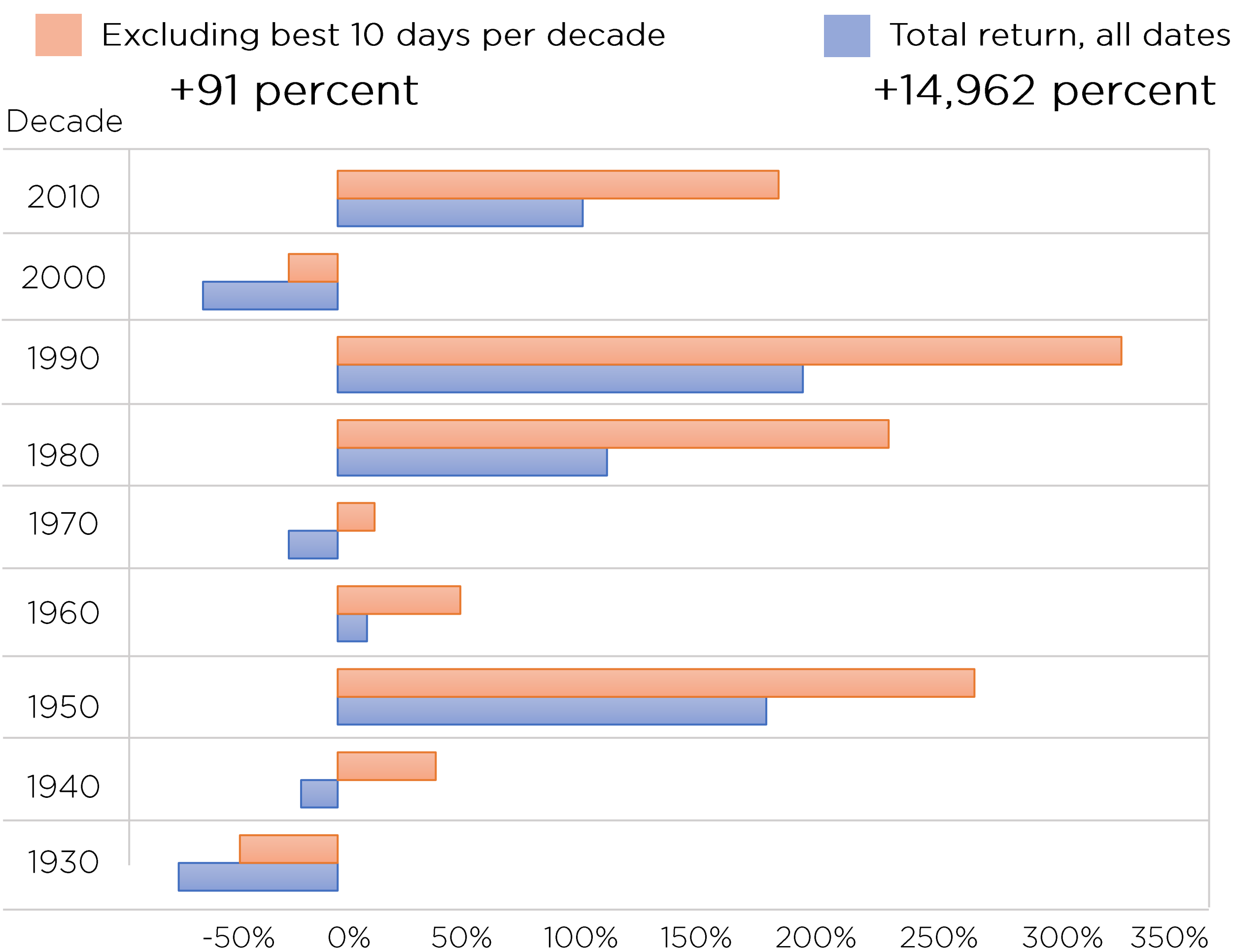
RESIST PANIC

Selling stocks in panic is the worst thing you could do after a stock market crash. Successful investing is about buying low and selling high. When you sell after a crash, you do just the opposite. Panic selling not only locks in losses but also puts investors at risk for missing the market's best days.

Half (50%) of the S&P 500 Index's strongest days in the last 20 years occurred during a bear market.

The cost of missing out

The best days in the stock market often follow the worst days. Here's how your returns would compare over the last nine decades if you stayed invested versus missing out on the 10 best days per decade. (S&P 500 Index, percent total return)



*Past performance is no guarantee of future results.
Source BofA US Equity & Quant Strategy

REVISIT YOUR FINANCIAL PLAN

WHAT IS A FINANCIAL PLAN?

Financial planning is very important in bull markets but becomes vital in bear markets/ A financial plan is a comprehensive overview of your financial goals, the steps you need to take to achieve them and often include an investment plan. It is answering the question, “what is the purpose of your money?” and putting a strategy in place to fund that purpose and an investment approach that is based on each individual goal.

The financial planning process involves a number of steps, and it is important to come back to these steps especially during volatile markets.

Identify your goals and the purpose of every dollar you have

Design a plan to achieve short-term and long-term goals

Analyze your risk tolerance

Put together investment strategy tailored to each goal

Review and update

When putting together a financial plan, that often entails running multiple scenarios of market performance. This usually means that bear markets such as 2008 or the Covid-19 bear market are factored in and your goals are still achievable weathering such markets.

REVISITING YOUR PLAN

Regardless of market conditions, it is always important to revisit your financial plan. In bear markets however, it is even more important. Revisiting your financial plan will help put the volatile market into perspective. In time where the market is falling, it is very difficult to think of a long-term plan. We recommend rerunning your financial plan in the worst of times. To see that your goals are still intact regardless of market movement will help reduce the stress that are caused by bear markets.

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LOOK FOR OPPORTUNITY

Market volatility tends to occur when something unexpected happens. Though it may be nerve-wracking for investors, volatility is a normal part of investing and has both positives and negatives. On one hand, extreme volatility can lead investors to make short-term decisions that are not inline with their long-term financial goals. On the other hand, volatility can create potential opportunities to better your financial picture. Here are a few opportunities to look for.

REBALANCING

Market changes can skew your allocation from its original target. Over time, assets that have gained in value will account for more of your portfolio, while those that have declined will account for less. Regular portfolio rebalancing instills a disciplined approach to decision making and

CONSIDER TACTICAL SHIFTS

Every investor is different. For some investors, periods of increased market volatility may create the opportunity to buy equities. Others may look to add stability to their portfolio through fixed income strategies.

TAX STRATEGIES

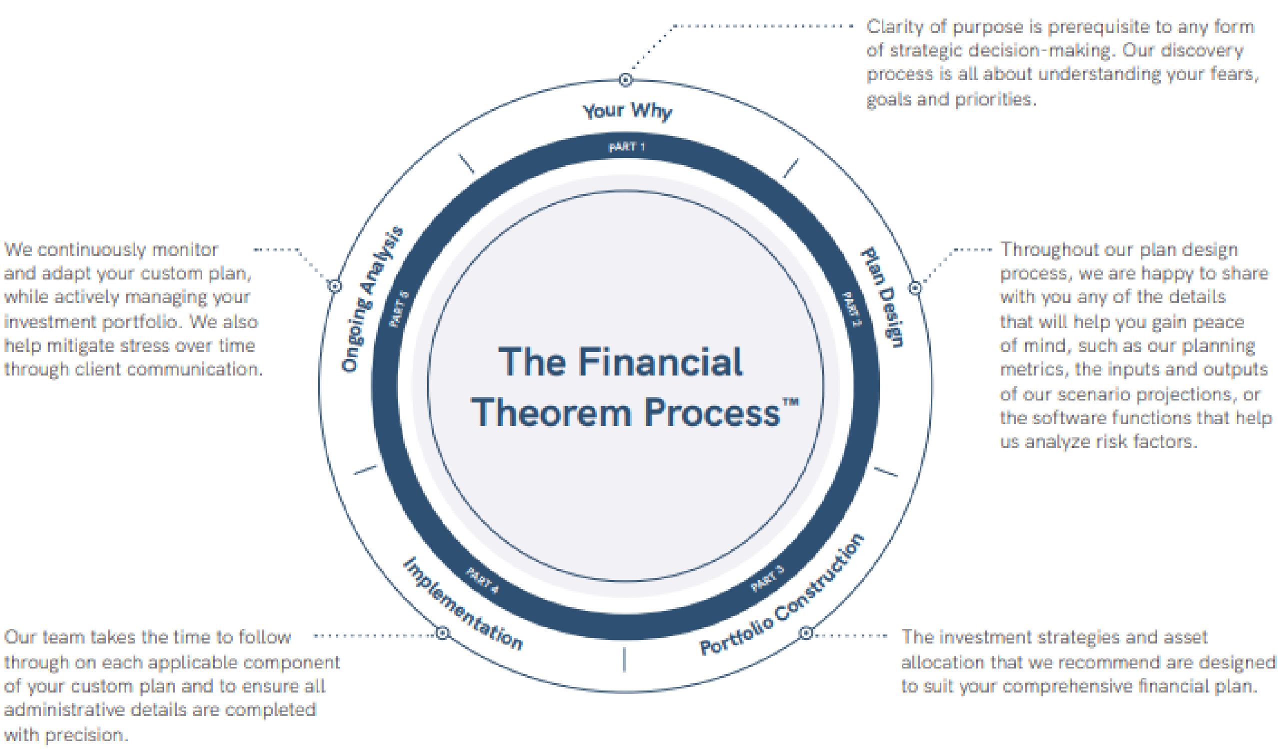
Tax rules may let you use losses on some of your investments to reduce your future tax bills, or use lower share prices to convert to a Roth IRA at a lower tax cost. Consider speaking with your tax specialist to see if there is an opportunity to take advantage of tax-loss harvesting or a Roth conversion.

IN SUMMARY

Market volatility can startle even the most experienced investors. But whether your retirement is decades away, just around the corner, or where you are today, financial planning should be the start to any investment plan. Financial planning will help keep a long-term perspective on the investment markets and when combined with a disciplined investment process, it can help reduce the emotions felt during volatile markets.

THE THEOREM PROCESS

At Theorem Wealth Management, our process is designed to understand your goals, both short term and long term. We take your entire financial picture into consideration. Our goal is to put together a comprehensive plan to help give you more confidence about achieving your financial goals regardless of market cycle.



THEOREM WEALTH MANAGEMENT CAN HELP

FIDUCIARY STANDARD OF CARE

At Theorem Wealth Management, we are an independent firm committed to helping you reach your goals through conflict free advice. We are a fiduciary, bound by law to put our clients' best interests above all else.

A TAILORED APPROACH

We do not believe in a one size fits all approach. We create a personalized portfolio tailored to your unique financial goals.

BEST IN CLASS

Our CEO, Johnathan Rankin was named a Forbes Best-in-State Next Generation Wealth Advisor*, an accolade that represents both quantitative and qualitative achievements in his work within the wealth services field. The ranking is designed to help families identify local professionals who deliver an exceptional level of comprehensive service and expertise.

We believe Theorem Wealth Management can help you reduce the stress of financial management and the major decisions that need to be made when investing.

A second set of eyes on your financial future is always a good idea. If you want an experienced financial professional to review your portfolio and financial goals, we urge you to call us at 214-838-1040 for a complimentary evaluation.

We look forward to hearing from you.

*Source: Forbes "Best-in-State Next-Generation Wealth Advisors" list, September 4, 2019. Forbes "Best-in-State Next-Generation Wealth Advisors" list was developed by SHOOK Research. Advisors considered for this ranking were born in 1980 or later with a minimum 4 years relevant experience; advisors have: built their own practices and lead their teams; joined teams and are viewed as future leadership; or a combination of both. Ranking algorithm is based on qualitative measures: telephone and in-person interviews, client retention, industry experience, credentials, review of compliance records, firm nominations; and quantitative criteria, such as: assets under management and revenue generated for their firms. Investment performance is not a criteria because client objectives and risk tolerances vary, and advisors rarely have audited performance reports. Rankings are based on the opinions of SHOOK Research, LLC and not representative nor indicative of any one client's experience, future performance, or investment outcome. Neither Forbes nor SHOOK Research receives compensation in exchange for placement on the ranking. Forbes is a trademark of Forbes Media LLC. All rights reserved. Rankings and recognition from Forbes are no guarantee of future investment success and do not ensure that a current or prospective client will experience a higher level of performance results and such rankings should not be construed as an endorsement of the advisor.

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