STATERA
ASSET MANAGEMENT

Commentary: August 2021

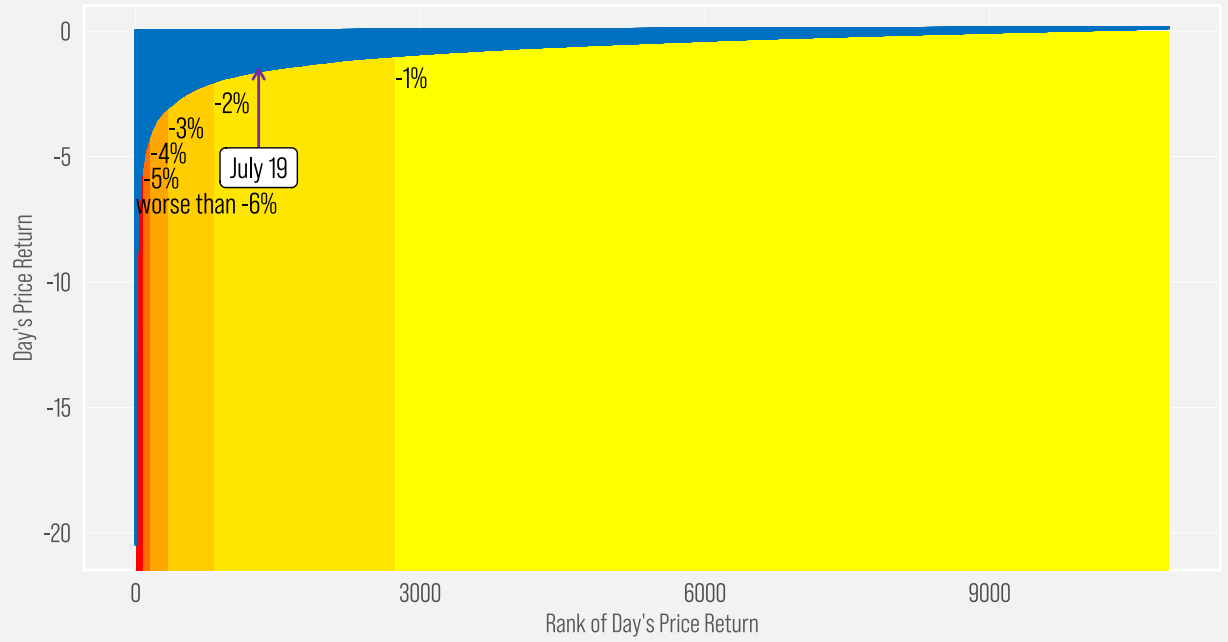
SO MUCH BREATHLESSNESS

On July 19, late-day headlines spoke of "carnage" during that day's equity market "rout". "Plunging" indexes prompted scary thoughts of impending market doom. And an evening walk around the neighborhood confirmed the locals heard those scary messages loudly and clearly. In truth, U.S. stock market had dropped only 1.5%. Next day, that same market proceeded to recover all the ground it lost the day prior. Given the misdirection such ominous media cues may offer to long term-oriented investors, we decided to provide this public safety and service announcement: we think it best to choose a level of market exposure with which you can be comfortable over interim periods as you progress toward longer-term financial goals, as all investing carries risk and on some days those risks can seem more pressing than on others.

Pains the Neck…

For all the fuss, you'd have thought that we were back in the depths of the early stages of the COVID-19 market crisis. In truth, the mid-month drop in July would not have ranked in the top 25 down days from the market peak on February 19, 2020, through the market's march back to breakeven on August 18, 2020. As we show in Figure 1, while the 1.6% drop in the S&P 500 Index (the S&P 500 is not the "market", which we quoted earlier, since it reflects only large-cap stocks, but it's generally representative of market moves and has a nice long history) is obviously on the deeper end of the spectrum, there have been many hundreds of one-day declines since the end of 1927 (1,295 to be exact) that rank worse.

Figure 1: S&P 500 Ranked Negative Days



From 01.03.28 to 07.30.21. Price returns, excluding the effects of dividends. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

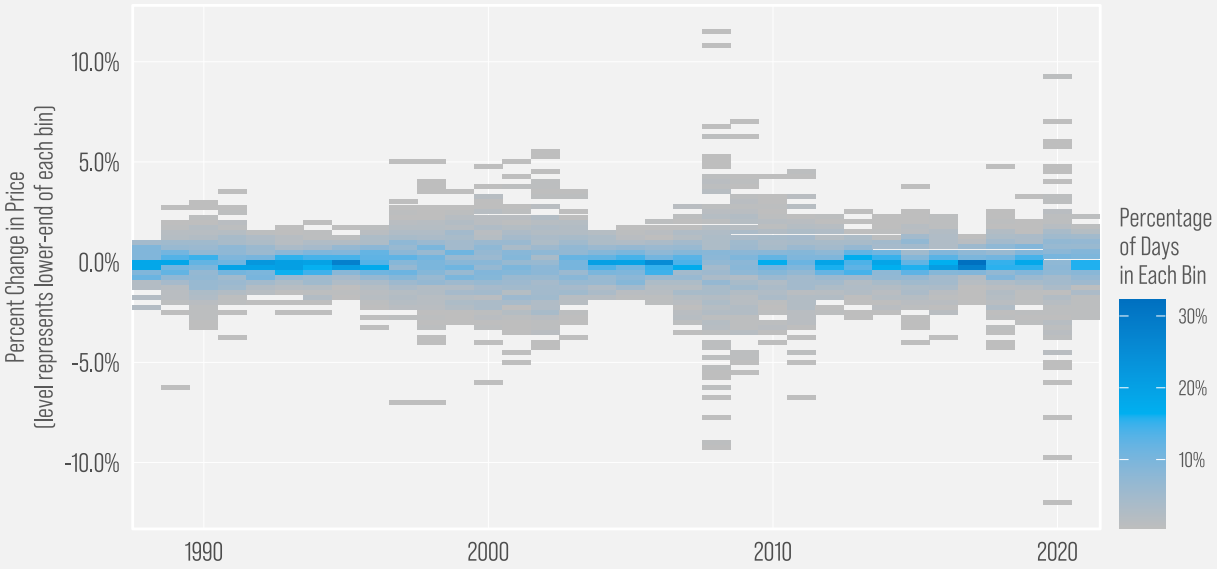
...Looking Up for Falling Sky

Actually, by many measures, 2021 has proved a much tamer year than was 2020. Figure 2 demonstrates one aspect of this relative calm, by showing the breadth of returns that we've seen so far this year, versus years past. In that chart, each little grey or blue rectangle is a "bin" that's 0.25% wide into which we drop daily returns for each year. The spread of these buckets (meaning from the top to the bottom of the chart, representing gains to losses) reflects relative volatility of daily returns during that year; generally speaking, the wider the vertical spread, the more volatile the year was. Similarly, the more daily returns that fit into an individual bucket, the bluer the bucket becomes. So as one looks across the center line of that chart (which represents 0% on the daily performance scale), the darker the blue those center-ish boxes are, the more stable the years' daily returns generally were (that is, the more returns between -0.50% and 0.50% there were).

Comparing last year (and 2008 and 2009 as well) to this year, we see that the range of returns was much wider than we so far have seen in 2021. This wider range of returns also can be seen in the lack of any strong blue hues for any individual box in those earlier years, while 2021 so far has shown the more normal tendency for daily returns to be more concentrated between -0.50% and 0.50%.

Figure 2: Annual Range of Daily Price Returns of the S&P 500 Index

Bluer areas represent a greater percentage of days within that range. Darker (lighter) blues generally reflect years with lower (higher) volatility.



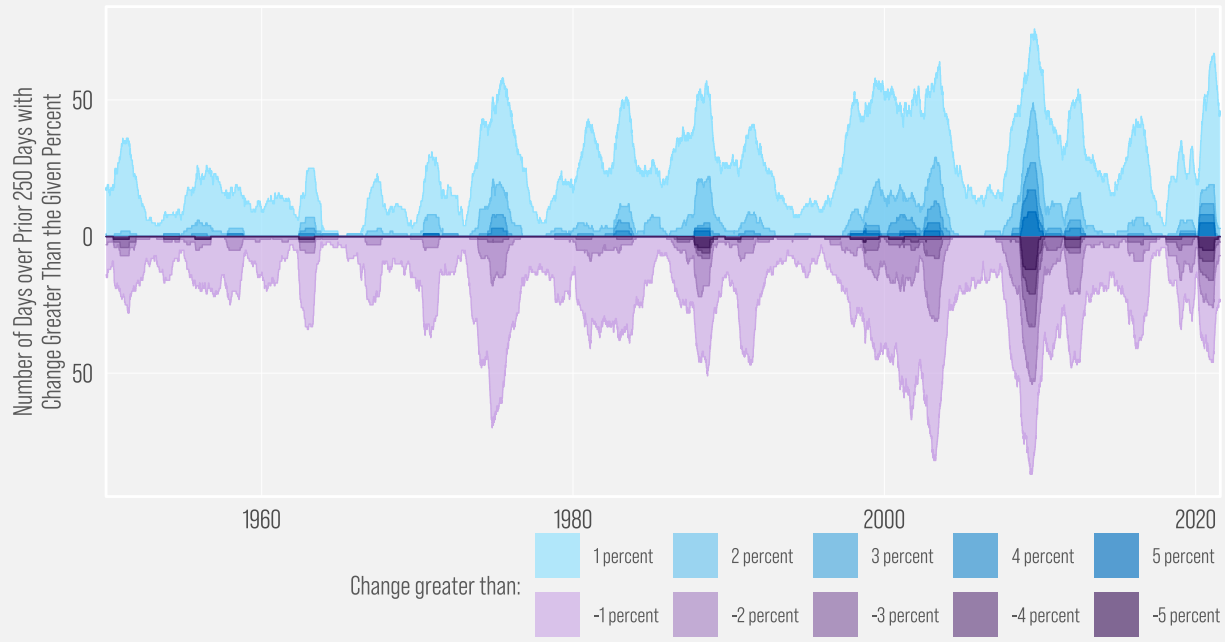
From 1988 to 2021. Price returns, excluding the effects of dividends. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Good with the Bad

Important to know, though, that increased market volatility generally is reflective of both larger declines and larger gains. That is, volatility is a strawberry-lime combo of sweet and sour. We can see that symmetry in Figure 3. For each date in that chart, we show the range of returns over the past year, again placing those returns into buckets. But this time the buckets are 1% wide. The darker the colors—blue for gains and purple

for declines—the more extreme returns we experienced over the past year. While there are other interesting details the chart conveys, we think the most relevant to this discussion is the fact that the data reinforce the idea that we tend to see large down days congregating with large up days (when we see darker purples, we tend also to see darker blues).

Figure 3: Days Greater than Specific Change in the S&P 500 Index



From 01.03.50 to 07.30.21. Price returns, excluding the effects of dividends. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actu portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Nothing to See. Yet.

Many readers likely already will have guessed the point of such observations. First, it's likely near impossible to miss the worst days the market experiences without also missing the best days. And when we experience a bad down day, it generally remains a better choice to stay the course of a given investment strategy, less we miss any rebound. Perhaps most relevant, though, is the view that investors may be best served over the longer-term by attempting to determine how comfortable they might be with increased market volatility before it occurs. Like now, when markets are experiencing a period of relative calm—and also happen to be near all-time peaks.

Just past the half point of the year, we expect the next five months to provide some surprises before we turn the page to 2022. The coronavirus likely will remain top of mind for many investors, as will policy responses both to the impacts of the virus and the ongoing macroeconomic recovery from its (so far) worst effects. Great time, then we think, to reach out to your advisor to discuss your portfolio in the context of recent market trends while attempting to ensure your portfolio reflects your comfort with any increased volatility we might see later this year and longer-term.

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