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Investment Institute

Weekly perspective on current market sentiment **November 3, 2021**

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Last Week's S&P 500 Index: +1.3%

Keep the ship on course

Key takeaways

- A diversified portfolio helps smooth out returns over time.
- Recognition of one's tolerance for risk is a key step in determining how a portfolio is allocated.

Remember the old investing bromide "sell in May and go away"? It didn't work at all this year as the S&P 500 Index advanced 10% between May 1 and October 31. Anyone who exited or partially exited the stock market based on this seasonal tendency probably left some money on the table. So it sometimes can go when one tries to invest using historical calendar-based trading or trend-following methodologies. Some investors are no doubt excited that we are now at the start of what history shows can be a good stretch in equity performance that runs from November through April. But then again, past performance is no guarantee of future performance. Always, always keep that in mind. Last week we reminded you to keep the big picture front and center when thinking about the market. We will continue to do that in coming months and quarters as we have a positive view of the market based on underlying fundamentals.

Yes, there are multiple issues investors can be concerned about currently that could very well impact the financial markets. Looking back over recent decades, that seems to almost always be the case and likely won't change any time soon. The 24/7/365 news cycle brings these concerns to our living rooms, laptops, and smartphones each and every day in a way that is unprecedented. And, unfortunately, bad news does still sell and can become a big focus for many investors.

But a properly diversified portfolio can help investors ride through market ups and downs. After all, you need to be able to sleep at night. If your tolerance for risk and the makeup of your portfolio are not in sync, a re-evaluation of your financial game plan is in order. That is where asset allocation comes into play.

For investors who are trying to build wealth over time, the benefits of a diversified portfolio that aligns with your risk tolerance and strategic objectives can help lessen the effects of wide market swings and smooth out overall performance over time. Exposures spread out among various asset classes such as equities, bonds, real assets (i.e., commodities, real estate, precious metals), and alternative investments (i.e., hedge funds) often help cushion these swings when their underlying movements are uncorrelated, as they frequently are. That means when some of these asset classes decrease in value, others might increase to help offset and smooth out the volatility, especially during turbulent periods in the markets.

In our opinion, the U.S. economy remains strong, and we recommend at this time that investors remain fully invested in a diversified portfolio that has a longer-term orientation. On a tactical, or six to 12 month, basis we continue to lean toward those asset classes and sectors that should benefit from the positive fundamentals that we believe lie ahead. Keep your portfolio ship on course. Stick to your plan.

Risks Considerations

Diversification does not guarantee investment returns or eliminate risk of loss including in a declining market.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. Investing in **specialty metals** involves special risk considerations such as severe price fluctuations and adverse economic and regulatory developments affecting the sector or industry. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Alternative investments, such as hedge funds, carry specific investor qualifications which can include high income and net-worth requirements as well as relatively high investment minimums. They are complex investment vehicles which generally have high costs and substantial risks. The high expenses often associated with these investments must be offset by trading profits and other income. They tend to be more volatile than other types of investments and present an increased risk of investment loss. There may also be a lack of transparency as to the underlying assets. Other risks may apply as well, depending on the specific investment product.

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