Your *Trust* Matters

February 2022 Newsletter

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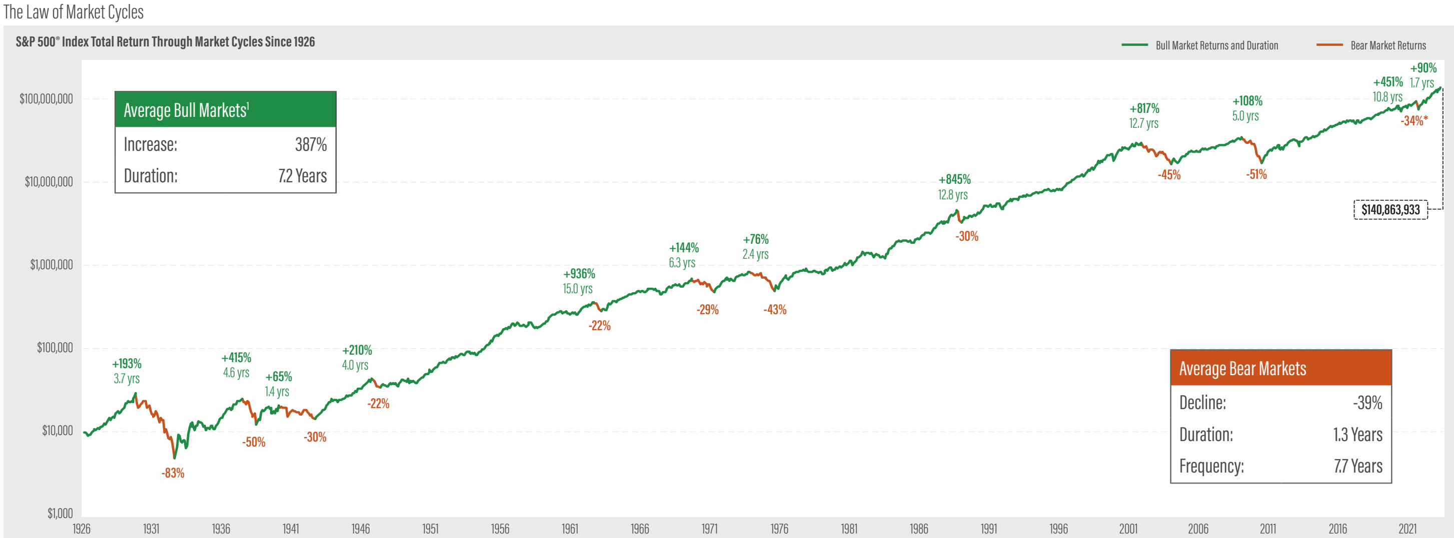
Maintaining Perspective During Market Volatility

After multiple years of outsized performance in the financial markets, the speed and severity of the reversal we are witnessing is undoubtably causing concern for many investors. Headline reports regarding rising interest rates, increasing volatility, slowing corporate earnings growth, and a central bank that is pivoting away from accommodative policies can be unsettling in and of themselves, let alone taken simultaneously. The violent sell-off across the capital markets at the start of the year clearly reflect these growing concerns. Yet it is during challenging times that investors are best served to pause and assess their investment portfolio within the context of market history and research, and more importantly to use those insights to guide their actions. Challenging as it may be, falling back on time-tested market wisdom during periods of heightened uncertainty is central to investment success.

The Law of Market Cycles



Source: FactSet, S&P Dow Jones Indices as of December 31, 2021. The index is unmanaged, is not available for investment and does not incur expenses. Daily performance is not available from 1926.
Past performance is no guarantee of future results.
[1] Average does not include current bull market.

* This chart uses monthly returns although this most recent bear market uses daily performance for consistency with the rest of the brochure.

"The stock market is the story of cycles and of the human behavior that is responsible for overreactions in both directions"
— Seth Klarman

continued on page 2

Markets cycle, that's what they do

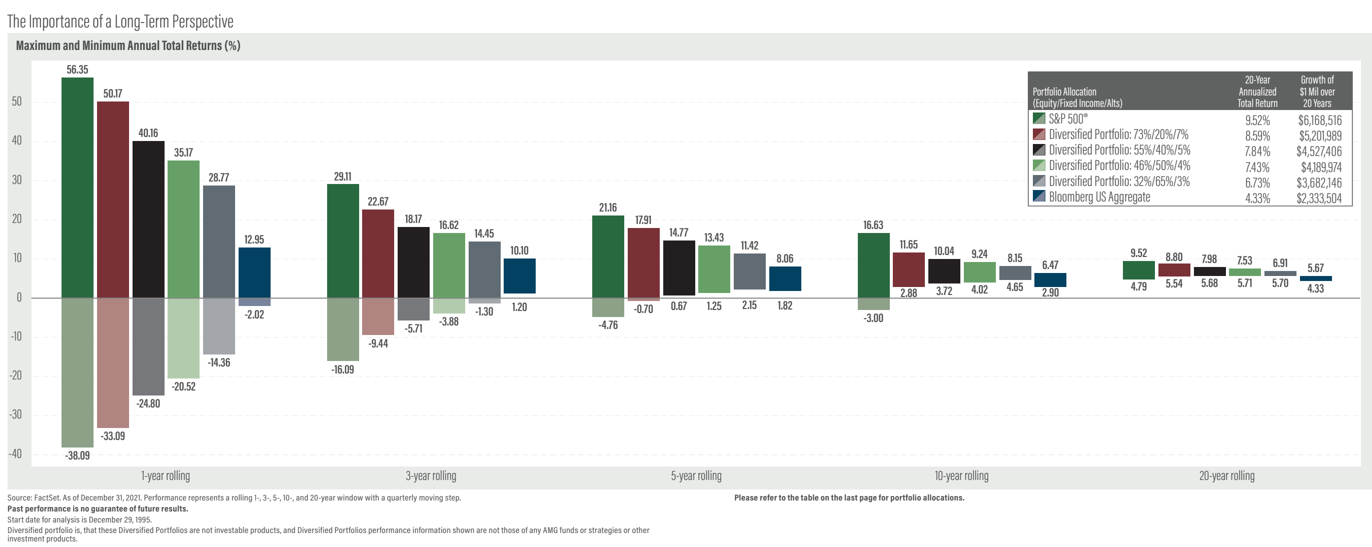
A fundamental truth is that markets are cyclical. This is a function of the natural expansion and contraction of an economy as it evolves through time. Forces that can move an economy include government intervention, corporate innovation, and shifts in consumer spending and demand. The collective choices of these actors directly influence the ebb and flow of an economy. As such, it is entirely natural for markets to move in cyclical patterns, and as investors we ought to expect this.

While the elation associated with market peaks and concern connected with market troughs can make for gripping headlines, market history demonstrates that these periods are not permanent. Moreover, through closer study insights can be gathered. Illustrating that point, the chart above shows the total return of the S&P 500 Index through multiple market cycles since 1926. On average, the duration of expansionary periods is 5.5x longer than the duration of contractionary periods and generated nearly 10x greater return on an absolute basis. While markets do indeed cycle, history demonstrates that expansionary periods not only last longer but also generate considerably greater return. Investors can take comfort in this knowledge when dealing with near-term market volatility.

Play the long game

The vagaries of the market are capable of distracting many investors from their longer-term goals and objectives. It is the rare individual who is immune to the emotional swings that come with the sharp rallies and steep selloffs in the financial marketplace. Given this, when investing it is paramount to maintain a long-term perspective that is rooted in an understanding of the behavior of investment risk and return over extended timeframes.

The graphic below illustrates the significance of maintaining a long-term perspective. As the rolling investment period extends from 1 year to 20 years, we observe a considerable compression in the dispersion, or risk, of returns across the spectrum of an all-equity portfolio, to multiple diversified portfolios, to an all-bond portfolio. It becomes very clear that time has a substantially



"The stock market is a device that transfers money from the impatient to the patient" — Warren Buffet

continued on page 3

positive impact on investment risk. A wide range of investment returns over shorter timeframes, including significant gains and significant losses, condenses to a significantly narrow range of positive returns as timeframes extend. Remaining patient and staying focused on long-term market behavior are essential to successfully executing investment strategies. Thus, many of our recommendations include a diversification of asset classes that act in unison over long periods.

Stay invested and don't try to time the market

In recent decades, stacks of behavioral economics research produced by Nobel Prize winning economists have connected many of the inefficiencies observed in the market with human behavior. The base human emotions of fear and greed help to explain much of the market boom and bust cycles observed over time. Research also indicates that the exercise of "timing" the market is extremely difficult to implement consistently and profitably. These findings are significant as their consequences on an investment portfolio can be substantial.

The following image demonstrates the magnitude of remaining fully invested through time. The line charts illustrate the growth of a portfolio invested in the S&P 500 Index over the entirety of a twenty-three year horizon, compared to two other portfolios that have missed the top 10 and top 25 performing days over the same investment time horizon. The impact of missing just a

Remaining Invested Is Critical

Source: FactSet. As of December 31, 2021. Data date range is January 1, 1999-December 31, 2021.
Past performance is no guarantee of future results.

"The investor's chief problem–and worst enemy–is likely to be himself/herself. In the end, how your investments behave is much less important than how you behave" — Benjamin Graham

continued on page 4

small percentage of actual investing days over a long horizon is quite striking and makes an incredibly compelling case for remaining fully invested in the market. Maintaining discipline in the face of market exuberance and correction is integral to harvesting value from your investments over time.

In conclusion

While the financial market is an incredibly complex meeting place for governments, corporations, and individuals, complete with an ever-expanding universe of investment vehicles and structures, we must not lose sight of the fact that the process of investing is not complicated. With the understating of an investor's risk tolerance and investment objectives, along with properly diversified investment portfolios, combined with the benefit of time, the likelihood of success increases substantially. If you have not refreshed your financial plan in some time, please contact your Relationship Manager. We can confirm goals, provide context, and help to ensure that you are properly positioned for the expected volatility in the market. Understanding and managing human behavioral inefficiencies is very often the greatest challenge when investing. Fortunately for investors, we have discipline on our side.

"It's not the work that is hard, it's the discipline" — Anonymous

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