How Do We Pursue Strong Returns While Minimizing Our Risk?

Anita Clemons, CFP

Senior Vice President & Managing Director of Investments

Presbyterian Foundation

Joined Merrill Lynch in August 1980

S&P 500 average closing price in 1980 was 118.

The S&P 500 closed on 12/31/22 at 4,378.

$10,000 invested in the S&P 500 in 1980 would be worth $1.1 Million on 12/31/22.

My observations

Other stockbrokers were giving me accounts

Accounts with bonds that had 5% to 6% coupons.

Why?

These accounts had bond holdings that were worth \$0.50 to \$0.75 on the dollar invested.

Why?

Current interest rates on new bonds were 12%.

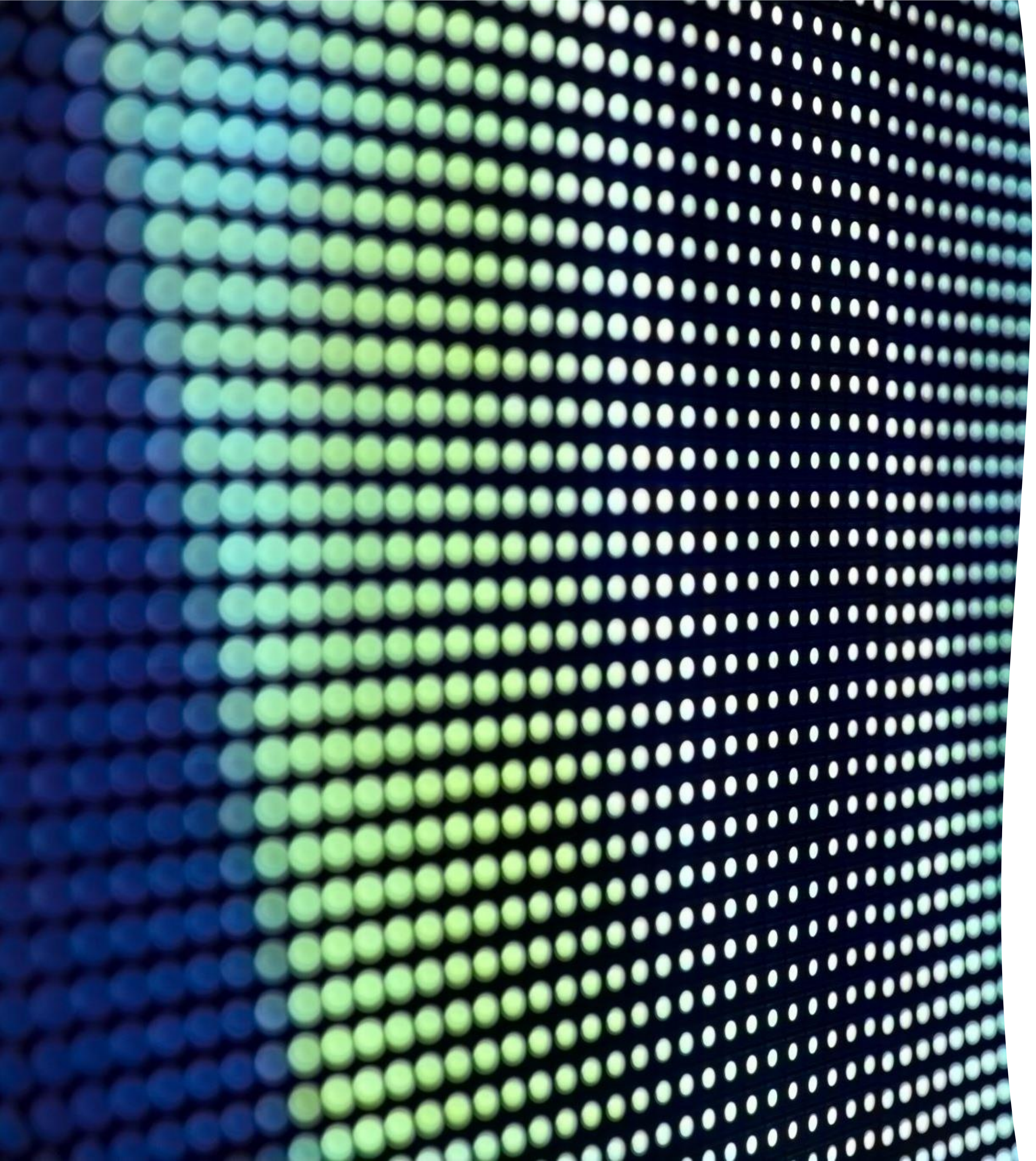
INTEREST RATE RISK…

More observations

- In 1980:
  - Energy stocks made up 29% of the S&P 500.
  - Technology stocks made up 5% of the S&P 500.
- Today, in 2023
  - Energy stocks make up 5.3% of the S&P 500
  - Technology stocks make up 20%+ of the S&P 500

Pursuing Strong Returns

- Must consider INFLATION
  - Decreases value of your money over time
  - Prices go up – you need more money to buy the same things
- Strong Returns?
  - Stocks – average annual return is 10%
  - Bonds – average annual return is 5%



Required Rate of Return to Distribute Money for Mission & Ministry

4% Distribution + Inflation + Fees = Required Rate of Return

If long term inflation is 2.5% …

- 4% Distribution+ 2.5% Inflation + 1% Fees = 7.5% Required Rate of Return to maintain purchasing power of the assets over time.

If long term inflation is 5% …

- 4% Distribution + 5% Inflation + 1% Fees = 10% Required Rate of Return to maintain purchasing power of the assets over time.

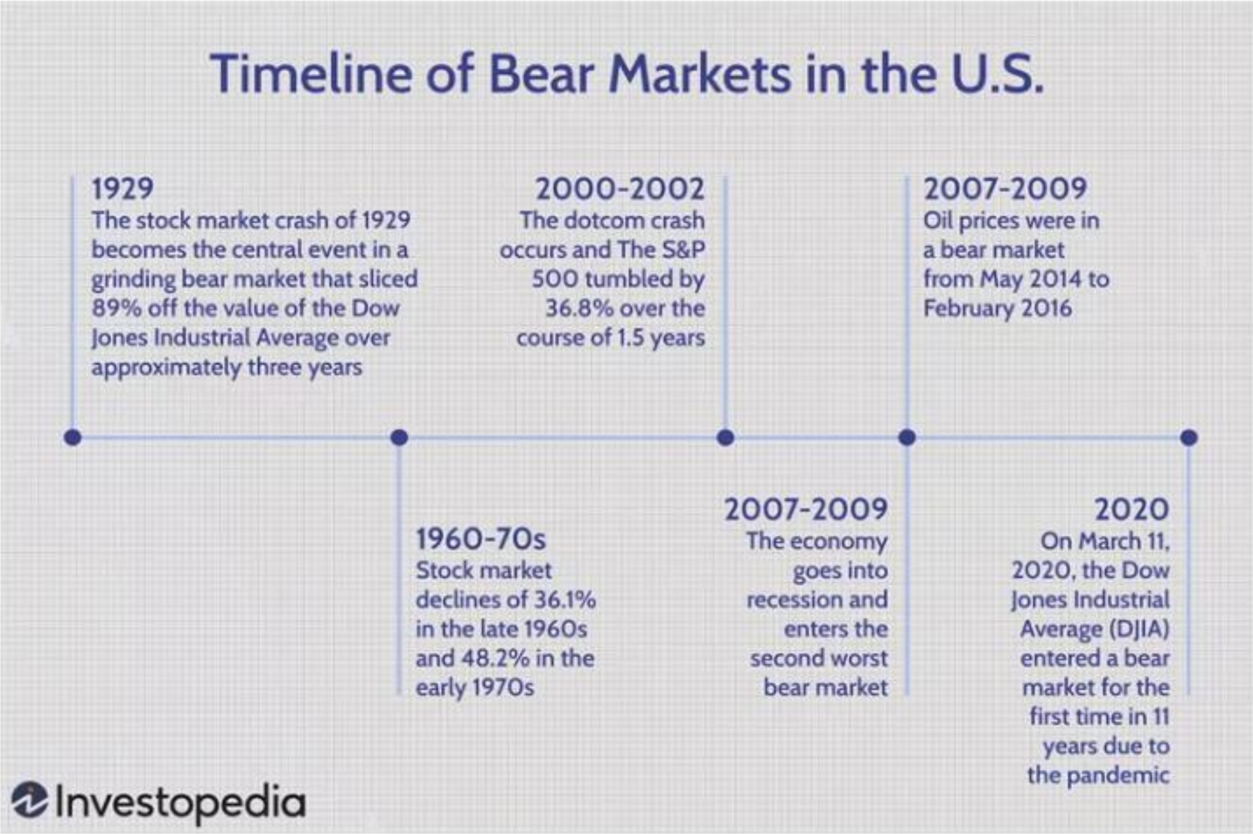
Minimizing Risk

- Types of Risk:
  - Market Risk
  - Interest Rate Risk

Market Risk - The Bear

The Last Bear Market (Before 2022)

The most recent bear market, which began on March 11, 2020, was triggered by the COVID pandemic. The Dow Jones Average fell from nearly 30,000 to under 19,000 but rebounded after barely a month as traders looked forward to an economic rebound.



Investopedia / Sabrina Jiang

Interest Rate Risk

- Changing interest rates directly affect fixed-income investments such as bonds.
- They have an inverse relationship — bonds tend to lose value when interest rates rise.
- The duration or maturity of a bond is the time it has to be held to receive its full value with interest.
- Bonds of longer duration face greater interest rate risk than short-term ones.
- Bond funds offer easy and affordable diversification that can reduce interest rate risk in your portfolio.

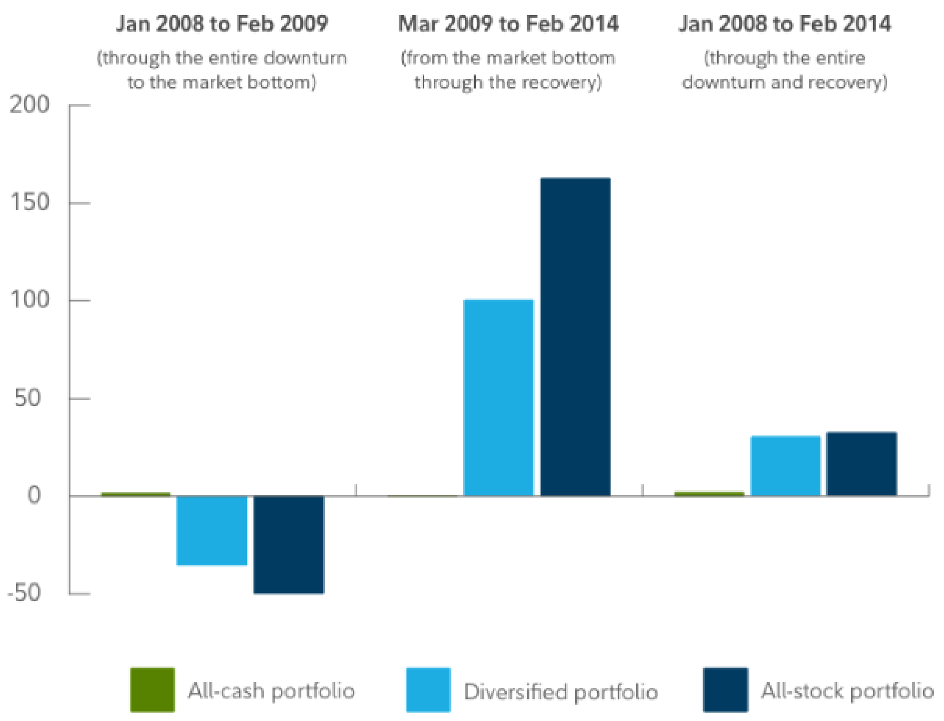
What is diversification?

- Diversification is a strategy that can be neatly summed up by the timeless adage, “don’t put all your eggs in one basket.” The strategy involves spreading your money among various investments in the hope that if one investment loses money, the other investments will more than make up for those losses.
- Extensive research has shown that, if you have a diversified portfolio, a whopping 88% of your experience (the volatility you encounter and the returns you earn) can be traced back to your asset allocation.*

Why add stocks and bonds?

- Use stocks to add the opportunity for growth.
- Use bonds for income & additional stability.

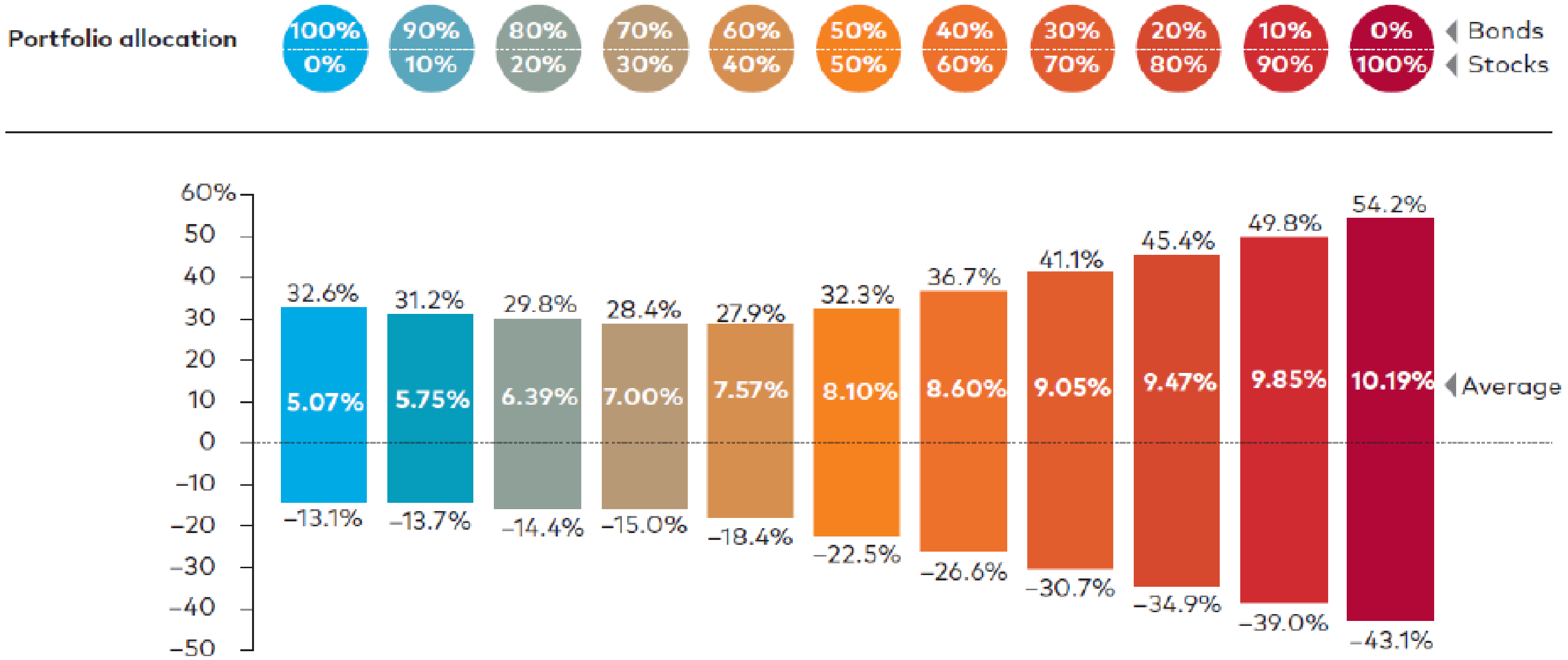
Diversification helped limit losses and capture gains through the financial crisis and recovery



Source: Strategic Advisers, Inc. Hypothetical value of assets held in untaxed accounts of $100,000 in an all-cash portfolio; a diversified growth portfolio of 49% US stocks, 21% international stocks, 25% bonds, and 5% short-term investments; and all-stock portfolio of 70% US stocks and 30% international stocks. This chart's hypothetical illustration uses historical monthly performance from January 2008 through February 2014 from Morningstar/Ibbotson Associates; stocks are represented by the S&P 500 and MSCI EAFE Indexes, bonds are represented by the Barclays US Intermediate Government Treasury Bond Index, and short-term investments are represented by US 30-day T-bills. Chart is for illustrative purposes only and is not indicative of any investment. **Past performance is no guarantee of future results.**

The mixture of assets defines the spectrum of returns

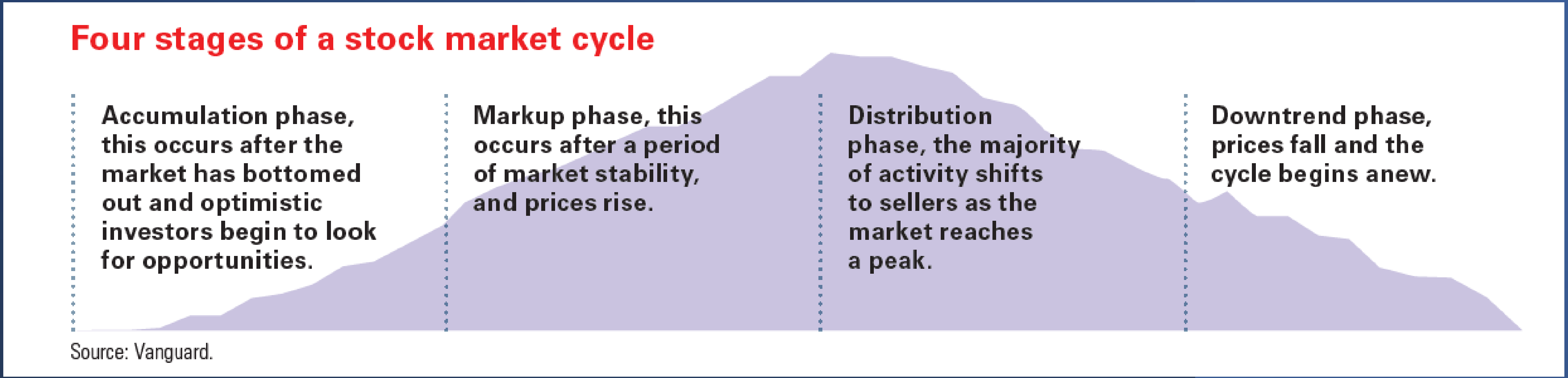
Best, worst, and average annual returns for various bond/stock allocations, 1926–2022



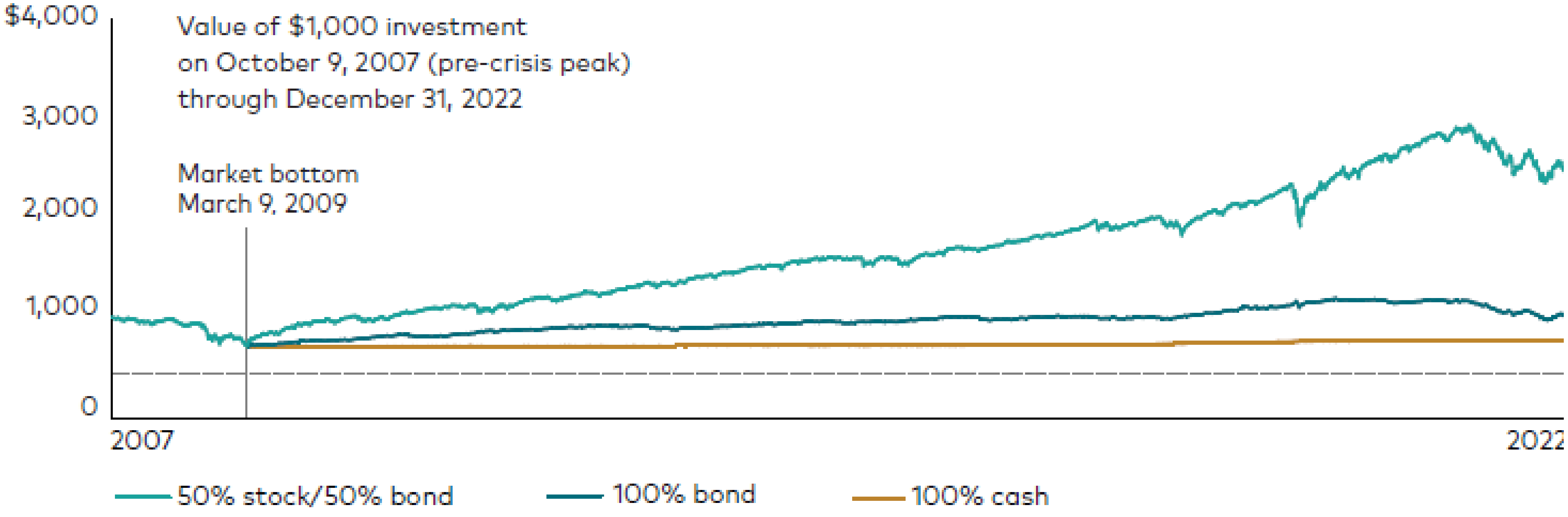
Note: Past performance does not guarantee future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Stocks are represented by the Standard & Poor's 90 Index from 1926 through March 3, 1957; the S&P 500 Index from March 4, 1957, through 1974; the Dow Jones Wilshire 5000 Index from 1975 through April 22, 2005; the MSCI US Broad Market Index from April 23, 2005, to June 2, 2013; and the CRSP US Total Market Index thereafter. Bonds are represented by the S&P High Grade Corporate Index from 1926 through 1968, the Citigroup High Grade Index from 1969 through 1972, the Lehman Brothers U.S. Long Credit AA Index from 1973 through 1975, the Barclays U.S. Aggregate Bond Index from 1976 to 2009, and the Bloomberg U.S. Aggregate Float Adjusted Bond Index thereafter. Data are through December 31, 2022.

Source: Vanguard.


Four stages of a stock market cycle
Accumulation phase, this occurs after the market has bottomed out and optimistic investors begin to look for opportunities.
Markup phase, this occurs after a period of market stability, and prices rise.
Distribution phase, the majority of activity shifts to sellers as the market reaches a peak.
Downtrend phase, prices fall and the cycle begins anew.
Source: Vanguard.

Riding out a rough period

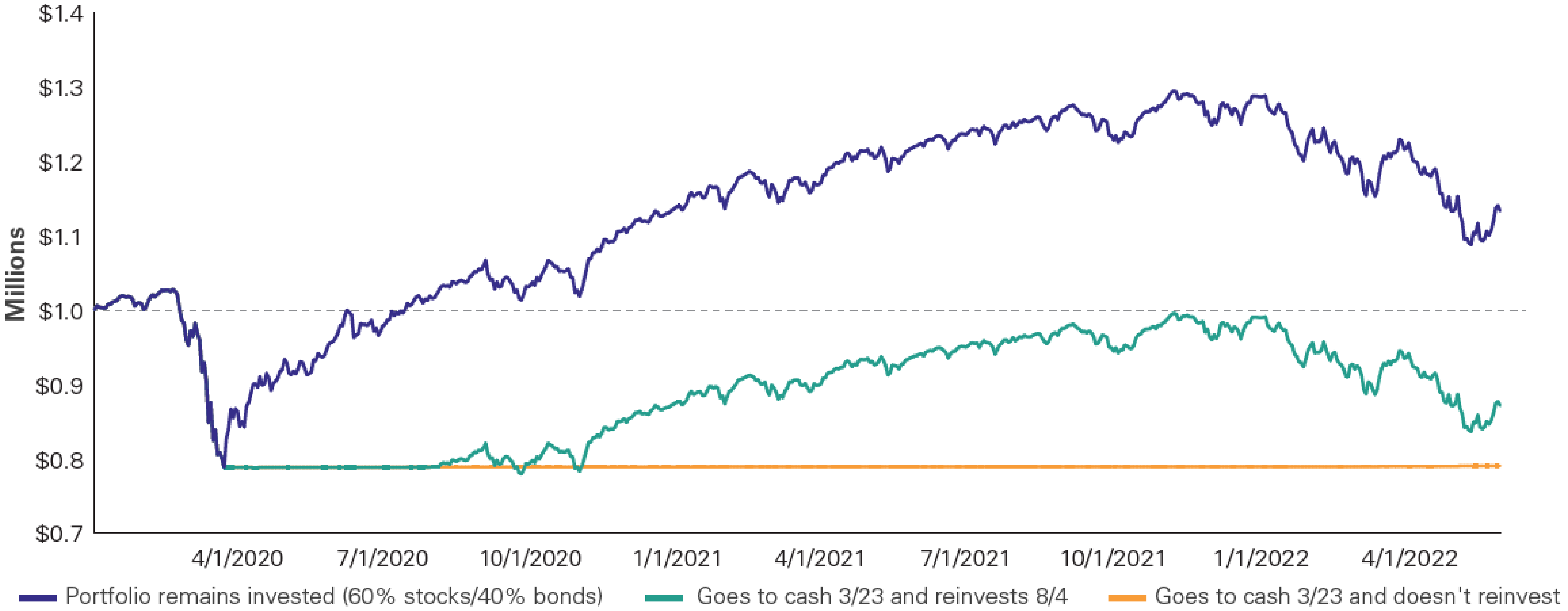


Sources: Vanguard calculations, using data from FactSet. All data as of December 31, 2022.

Notes: This is a hypothetical illustration. The Balanced portfolio is represented by 50% S&P 500 Index and 50% Bloomberg U.S. Aggregat Index; bonds are represented by Bloomberg U.S. Aggregate Bond Index; and cash is represented by 3-month Treasury bills. *Past performan guarantee of future results*. The performance of an index is not an exact representation of any particular investment, as you cannot invest in an index.

Staying the course can pay off; abandoning course can be costly

Returns for a hypothetical $1 million global portfolio consisting of 60% stocks/40% bonds



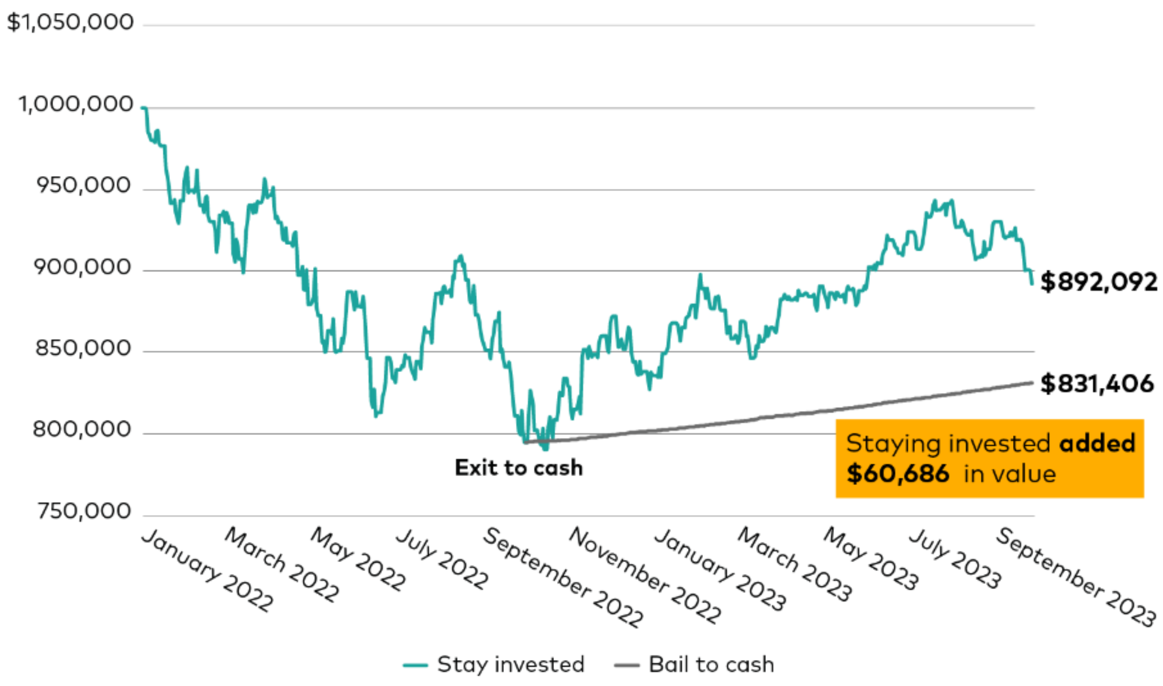
Sources: Vanguard calculations, based on data from FactSet, as of May 31, 2022.

Notes: U.S. stocks represented by CRSP US Total Market Index. U.S. bonds represented by Bloomberg U.S. Aggregate Float Adjusted Index. Global stocks represented by FTSE Global All Cap ex US Index. Global bonds represented by Bloomberg Global Aggregate ex-USD Float Adjusted RIC Capped Index. Cash represented by FTSE 3-Month U.S. Treasury Bill Index. Stock allocation consists of 60% U.S., 40% international. Bond allocation consists of 70% U.S., 30% international. *Past performance is no guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot directly invest in an index.*

Staying the Course: Source Vanguard

Figure 5: Impact of staying the course versus bailing to cash

January 1, 2022, to September 26, 2023



All investing is subject to risk, including the possible loss of the money you invest. Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

What can you control?

Smart things to do (that many won't) in a down market

One of the most unsettling aspects of market downturns is the fact they are out of your control.
Markets move based on numerous variables that no one person can meaningfully control or even fully monitor. And when stock prices falter, the resulting steady drumbeat of negative news reports can drive many people to flee the markets out of fear (and miss out on potential gains as financial markets regain their strength). But when others are pessimistic, you can reframe the situation as one of opportunity. Namely, you have the power to follow these suggested actions—which historically have resulted in success weathering market lows.

Tune out the noise
It's okay to not check your portfolio balance when the market is falling. Turning off the financial news might be smart if it keeps you from making mistakes based on emotional decisions.

Revisit your asset allocation
If you happen to be near retirement or in retirement, or if you simply lose sleep over downturns, you may need to reevaluate your risk tolerance. Together, we can figure out the balance of stocks and bonds best suited to your comfort level with risk and other personal circumstances.

Control what you can: Costs
Expenses eat returns, and their bite is particularly painful during market corrections. We can explain options for removing high-cost investments from your portfolio in ways that minimize the taxes due from their sale.

Set realistic expectations
U.S. stock and bond markets have posted remarkable returns in the past few decades. Statistically speaking, it would be prudent to expect lower returns in the future. Together, we can develop a plan that still achieves your goals despite potential headwinds of lower returns.

Stay diversified
Downturns offer case studies in how different asset-class and sector exposures can help to insulate your portfolio. Having conversations about risk tolerance, as mentioned above, helps us to better understand your investing style and what's most important to you. With this greater insight, we can go over diversification options for your portfolio that blunt the impact of downturns while putting you on track to achieve your financial objectives.

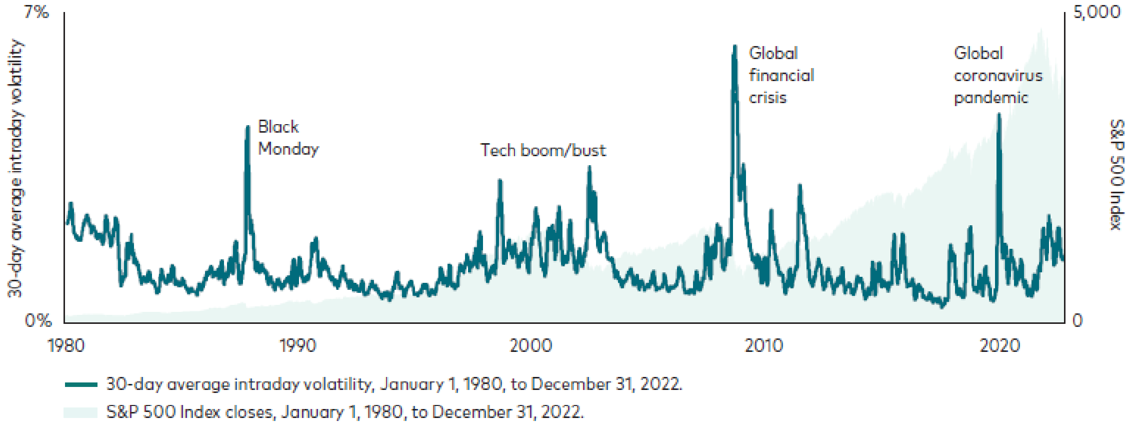
When markets are jumpy, maintain focus on your goals

After a long spell of positive returns, it can come as a tremendous shock to be reminded that volatility includes stock prices going down as well as up. The truth is, such movement is practically guaranteed.

While you can't control the markets, you can manage how you react to their swings. The key is to zoom out from any particular period and focus on the long-term trend. As you can see in the chart below, the Standard & Poor's 500 Index, widely used as a proxy for the U.S. stock market, has been one long succession of volatile periods. However, despite the historical volatility, the index increased nearly 19 times in value during the period shown. Investors who jumped ship during the volatile times, by selling their stock portfolios, would have missed out on the impressive gains that followed the declines.

Volatility and prices for the S&P 500 Index

January 1, 1980, to December 31, 2022



Sources: Vanguard calculations, using data from FactSet.

Notes: Intraday volatility is calculated as the daily range of trading prices [(high-low)/opening price] for the S&P 500 Index.

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Time in the market, not timing the market!

S&P 500 Index total returns, 1988–2022, missing the best and worst days

Source: Vanguard Investment Advisory Research Center.

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SINCE 1980 THERE HAVE BEEN

10

Bear markets

Declines of 20% or more, at least two months long

6

Recessions

Declines in economic conditions for two or more successive quarters (refers to declines in the broad economy rather than the financial markets, though the two can be linked)

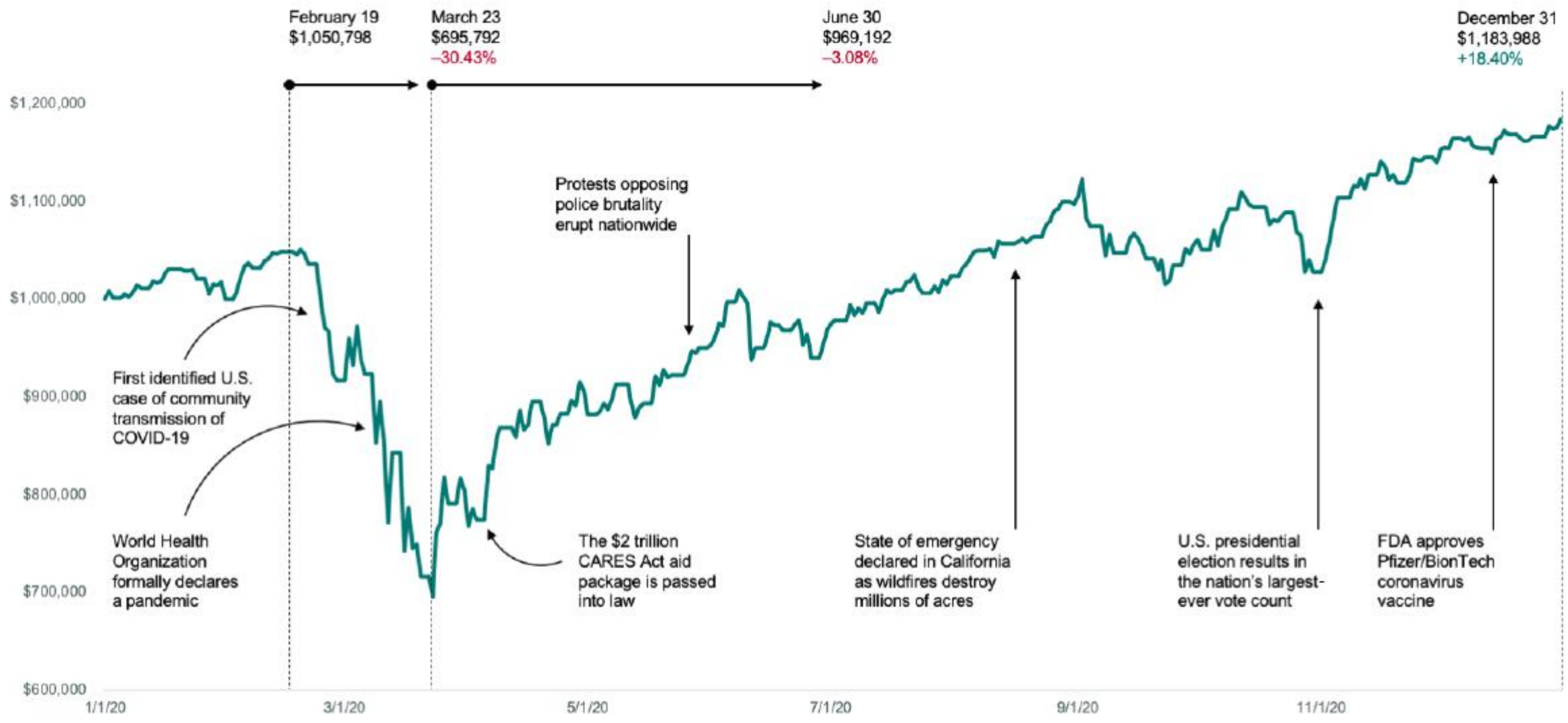
Source: Vanguard.

Notes: Number of bear markets based on MSCI World Index from January 1, 1980, through December 31, 1987, and the MSCI AC World Index (price return) from January 1, 1988, through December 31, 2022. Number of recessions based on the National Bureau of Economic Research's US Business Cycle Expansions and Contractions data.

Historically, in difficult times, markets have proved resilient

Even amid the coronavirus pandemic and widespread social unrest in the United States, the performance of the Standard & Poor's 500 in 2020 demonstrated the importance of staying invested.

Value of a $1 million initial investment in the S&P 500 in 2020 demonstrated the importance of staying invested



Source: Vanguard, using data from Morningstar, Inc.

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Our forecasts are derived from a May 31, 2023, running of the Vanguard Capital Markets Model®. Figures are based on a 2-point range around the 50th percentile of the distribution of return outcomes for equities and a 1-point range around the 50th percentile for fixed income.

Following are our 10-year annualized return forecasts.

U.S. stocks: 4.1% to 6.1%; **ex-U.S. stocks:** 6.5% to 8.5%.

U.S. bonds: 3.8% to 4.8%; **ex-U.S. bonds:** 3.7% to 4.7% when hedged in U.S. dollars.

Note: The probabilistic return assumptions depend on market conditions at the time of the running of the VCMM and, as such, change with each running over time.

What can you do today?

- New Covenant Funds – Treasury Obligations Fund
  - Money Market Fund –
  - Federated Treasury Obligations Fund
  - Current 7 Day Net Yield 4.75%
- New Covenant Trust – Insured CDs
  - Insured Certificates of Deposit
  - Variety of maturities
  - Current Yields ~ 5%