SALTMARSH FINANCIAL ADVISORS, LLC

1st Quarter 2022

INVESTMENT UPDATE

JOIN US IN WELCOMING SARAH HORNE TO THE TEAM!

We are pleased to welcome Sarah Horne to the team! In her role as Associate Financial Advisor, Sarah will leverage her planning knowledge and experience in supporting Saltmarsh client relationships with financial planning and preparation of portfolio reviews and recommendations. Sarah is a graduate of Auburn University, where she earned both her Bachelor of Arts in Journalism, graduating Magna Cum Laude, and Master of Education. She holds her Series 7 license and her life insurance, health and fixed annuities license. Before joining Saltmarsh, Sarah was a representative at a financial planning firm where she provided holistic guidance on financial topics including budgeting, retirement planning and risk management. Outside of work, Sarah is an active member of First Baptist Church of Pensacola. She is the treasurer of Positively Pensacola and a member of Impact 100. Sarah enjoys a variety of outdoor activities and she and her husband, Matt, have two dogs, Sadie and Ollie, who keep them on their toes!

INSIDE THIS ISSUE

DFA'S UPDATE ON RUSSIA

On March 1, 2022, Dimensional's Investment Committee removed Russia from its list of approved markets for investment. Dimensional's Investment Committee considers a variety of factors when evaluating a market's eligibility for investment, which include, among others: government regulation, restrictions on foreign investors in that market, and market liquidity.

- UPCOMING EVENTS -

THE IMPACT OF MAJOR EVENTS ON MARKETS OVER TIME

LIVE Webinar | Thursday, March 31 @ 2:00 PM CST/3:00 PM EST

There is conflict in Europe, the U.S. is experiencing generational inflation, the Federal Reserve could be dramatically changing policy, and we are exiting a global pandemic. What insights can we glean from examining similar events in history? What was their impact on markets? Should we make any changes in investment strategy? Join us for a short webinar on analysis of these impacts on the market. Learn more and register: saltmarshcpa.com/cpa-news/Blog/march_31_2022_fa_webinar.asp

NIGHT AT THE BALLPARK IN PENSACOLA

Pensacola Bayfront Stadium | Thursday, May 12 @ 6:00 PM CST

Baseball season is right around the corner which means it is time for Saltmarsh Financial Advisors' annual Night at the Ballpark! You and a guest are invited to a night of fun in appreciation of our investment management clients as the Blue Wahoos take on the Rocket City Trash Pandas! *Ballpark buffet and beverages will be provided on the Coors Light Deck starting at 6:00 pm. First pitch thrown at 6:35 pm.*

Please RSVP by Friday, April 29

to Nancy Patton at nancy.patton@saltmarshcpa.com or call (850) 435-8300

This event has limited capacity. Please RSVP and if your plans change, let us know at your earliest convenience so we may offer your tickets to another.

IS IT TIME TO SELL STOCKS?

BY WESTON WELLINGTON, VICE PRESIDENT | DIMENSIONAL FUND ADVISORS | FEB. 23, 2022

KEY TAKEAWAYS

- Soaring inflation and record market highs may leave investors wondering whether it's time to adjust their portfolios.
- Researchers have examined a wide range of timing strategies based on earnings, dividends, interest rates, economic growth, and more.
- A recent Morningstar report showed that investors may be better off steering clear of tactical asset allocation strategies and avoiding making short-term shifts among asset classes.

After touching record highs in early January, US stocks[1] have slumped, and investors have been confronted with worrisome headlines[2] in the fnancial press:

"Infation Hits Fastest Clip Since '82"— Gwynn Guilford, *Wall Street Journal*, January 13, 2022

"Economists Cut Back Growth Forecasts as Threats Pile Up" — Harriett Torry and Anthony DeBarros, *Wall Street Journal*, January 18, 2022

"Giant Stock Swings Send Some Into Bear Territory" — Gunjan Banerji and Peter Santilli, *Wall Street Journal*, January 18, 2022

"Markets Drop as Turbulent Trading Persists" — Gunjan Banerji and Will Horner, *Wall Street Journal*, January 26, 2022

"Fed Set to Start Increasing Rates by Mid-March" — Nick Timiraos, *Wall Street Journal*, January 27, 2022

Some stocks that attracted intense interest last year have fallen sharply from their previous highs, as **Exhibit 1** shows.[3]

Is rising infation a negative for equity investors? Do large losses in a handful of popular stocks signal a downturn ahead for the broad market?

Invariably, the question behind the question is, "Should I be doing something different in my portfolio?" This is just another version of the market timing question dressed in different clothes. Should I sell stocks and wait for a more favorable outlook to buy them back? More precisely, can we fnd clear trading rules that will tell us when to buy or hold stocks, when to sell, when to admit our mistakes, and so on?

The lure of successful trading strategies is seductive. If only we could fnd them, our portfolios would do so much better.

Consider Felicity Foresight. She is gifted with the ability to identify patterns in the champagne bubbles foating to the top of her glass on New Year's Eve, enabling her to predict the best performer between S&P 500 stocks and US Treasury bills over the subsequent 12 months. How would her hypothetical portfolio have performed over the past 50 years following this simple annual readjustment strategy?

Rather well. Following a Perfect Timing strategy by investing in the best performer each year, she turned $1,000 into $1.8 million, nearly 10 times the wealth produced using a buy-and-hold strategy for the S&P 500 Index (**see Exhibit 2**).

But also consider Hapless Harry. He was never a fan of New Year's and manages to get it wrong each and every year. His Perfectly Awful strategy winds up losing money over the same 50-year period.

Motivated by the substantial payoff associated with successful timing, researchers over the years have examined a wide range of strategies based on analysis of earnings, dividends, interest rates, economic growth, investor sentiment, stock price patterns, and so on.

One colorful example, known as the Hindenburg Omen, had a brief moment of fame in 2010. Developed by a blind mathematician and former physics teacher, this stock market indicator took its name from the German airship disaster of 1937. The Omen signaled a decline only when multiple measures of 52-week high/low prices and moving averages all turned negative. This indicator had correctly foreshadowed major downturns in 1987 and 2008. When it fashed a "sell" signal on Thursday, August 12, 2010, internet chat rooms and Wall Street trading desks were buzzing the next day, Friday the 13th, with talk of a looming crash, according to the *Wall Street Journal*.[4] But no crash occurred, and the S&P 500 had its highest September return since 1939.[5]

The money management industry is highly competitive, with more stock mutual funds and ETFs available in the US than listed stocks.[6] If someone could develop a proftable timing strategy, we would expect to see some funds employing it with successful results. But a recent Morningstar report suggests investors should be wary of those claiming to do so. The report examined the results of two types of funds[7], each holding a mix of stocks and bonds:

- ***Balanced:*** Minimal change in allocation to stocks
- ***Tactical Asset Allocation:*** Periodic shifts in allocation to stocks

As a group, funds that sought to enhance results by opportunistically shifting assets between stocks and fixed income underperformed funds that simply held a relatively static mix (**see Exhibit 3**). Morningstar further pointed out that if the performance of nonsurviving tactical funds were included, the numbers would be even worse. Its conclusion: "The failure of tactical asset allocation funds suggests investors should not only stay away from funds that follow tactical strategies, but they should also avoid making shortterm shifts between asset classes in their own portfolios."[8]

We should not be surprised by these results. Successful timing requires two correct decisions: when to pare back the allocation to stocks and when to increase it again. Watching a portfolio shrink in value during a market downturn can be discomforting. But investors seeking to avoid the pain by temporarily shifting away from their long-term strategy may wind up trading one source of anguish for another. The initial upsurge in prices from their lows often takes many investors by surprise, and they fnd it extraordinarily diffcult to buy stocks that were available at sharply lower prices a few weeks earlier. The opportunity cost can be substantial: Over the 25-year period ending in 2021, a hypothetical $100,000 invested in the stocks that make up the Russell 3000 Index would have grown to $1,036,694.[9] But during this quarter-century, missing just the best consecutive 90-trading-day period (which ended June 22, 2020) shaved the ending wealth fgure by an alarming 33%.[10]

Add to this the likelihood of increased transaction costs and the potential tax consequences of a short-term trading strategy, and the odds of adding value through market timing grow even slimmer.

Exhibit 1: Stock Slump

Named securities may be held in accounts managed by Dimensional. This information should not be considered a recommendation to buy or sell a particular security. Source: Bloomberg

Name	Ticker	Return through 12/31	Return through 1/31
Robinhood Markets Inc. Class A	HOOD	–79.1%	–83.4%
AMC Entertainment Holdings Inc. Class A	AMC	–62.5%	–77.9%
GameStop Corp. Class A	GME	–69.3%	–77.4%
Tesla Inc.	TSLA	–15.0%	–24.7%

1. *As of Jan. 31, the S&P 500 was down 5.17% for the year.*
2. *Headlines are sourced from publicly available news outlets and are provided for context, not to explain the market's behavior.*
3. *While these stocks were selected based on newsworthiness and the high level of attention they received in the media in 2021, their returns may not be reflective of all high-profile stocks over the period.*
4. *Steven Russolillo and Tomi Kilgore, " 'Hindenburg Omen' Flashes," Wall Street Journal, Aug. 14, 2010.*
5. *Weston Wellington, "Hindenburg Omen Flames Out," Down to the Wire (blog), Dimensional Fund Advisors, Oct. 8, 2010.*
6. *The Russell 3000 index contains the stocks of 3,000 US companies and represented about 97% of the investable US equity market as of Dec. 31, 2021. According to the Investment Company Institute, there were 2,997 domestic equity funds and 1,032 US equity exchange-traded funds at the end of 2020.*
7. *Morningstar described the risk profile of the Tactical Asset allocation as generally in line with that of Morningstar's 50%–70% equity category. The narrower "balanced" category used here was a subset of Morningstar's 50%–70% category that has a fairly static mix of about 60% stocks and 40% bonds.*
8. *Amy C. Arnott, "Tactical Asset Allocation: Don't Try This at Home," Morningstar, Sept. 20, 2021.*
9. *Data presented in the Growth of $100,000 example is hypothetical and assumes reinvestment of income and no transaction costs or taxes. The exhibit is presented for illustrative purposes only and is not indicative of any investment.*
10. *Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. The example of an investor missing the best consecutive 90 trading days assumes that the hypothetical portfolio fully divested its holdings at the end of the day before the 90-day period began, held cash for the period, then reinvested the entire portfolio in the Russell 3000 Index at the end of the period.*

Exhibit 2: Past Perfect?

Growth of $1,000, January 1972–December 2021	
Perfect Timing Strategy	$1,811,565
S&P 500 Index	$197,063
One-Month US Treasury Bills	$8,727
Perfectly Awful Timing Strategy	$949

In USD. Data presented in the Growth of $1,000 exhibit is for illustrative purposes only and is not indicative of any investment. The examples assume that the hypothetical portfolio fully divested its holdings of stocks (or bonds) at the end of the last trading day of any year when a switch was indicated, held the other asset for the subsequent year, and performed the exercise again at year's end. The examples are hypothetical and assume reinvestment of income and no transaction costs or taxes. There is no guarantee strategies will be successful. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Source: One-Month US Treasury Bills is the IA SBBI US 30 Day TBill TR USD. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Treasury bills data provided by Ibbotson Associates via Morningstar Direct.

Exhibit 3: Scare Tactics

% Annualized Return through August 31, 2021	3 Year	5 Year	10 Year
Tactical Asset Allocation	8.36	8.38	6.18
Balanced	10.49	9.89	8.93
Tactical Underperformance	–2.13	–1.51	–2.75

Source Morningstar. Morningstar defines Tactical Allocation portfolios as those that "seek to provide capital appreciation and income by actively shifting allocations across investments. These portfolios have material shifts across equity regions and bond sectors on a frequent basis. To qualify for the tactical allocation category, the fund must have minimum exposures of 10% in bonds and 20% in equity. Next, the fund must historically demonstrate material shifts in sector or regional allocations either through a gradual shift over three years or through a series of material shifts on a quarterly basis. Within a three-

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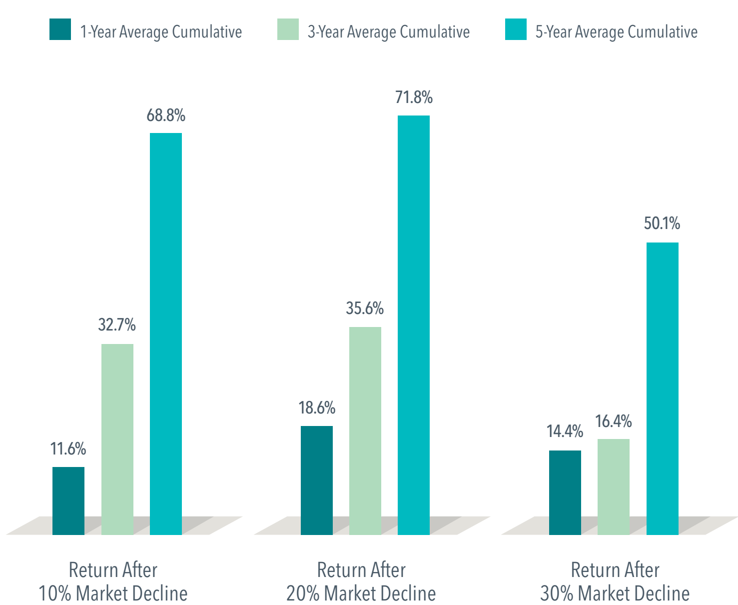
HISTORY SHOWS THAT STOCK GAINS CAN ADD UP AFTER BIG DECLINES FROM DIMENSIONAL FUND ADVISORS

FAMA/FRENCH TOTAL US MARKET RESEARCH INDEX RETURNS JULY 1, 1926—DECEMBER 31, 2020



Sudden market downturns can be unsettling. But historically, US equity returns following sharp downturns have, on average, been positive.

- A broad market index tracking data since 1926 in the US shows that stocks have tended to deliver positive returns over one-year, three-year, and five-year periods following steep declines.
- Cumulative returns show this to striking effect. Five years after market declines of 10%, 20%, and 30%, the compounded returns all top 50%.
- Viewed in annualized terms across the longest, five-year period, returns after 10%, 20%, and 30% declines have been close to the historical annualized average over the entire period of 9.7%.[1]

Sticking with your plan helps put you in the best position to capture the recovery.

1. The average annualized returns for the five-year period after 10% declines were 9.54%; after 20% declines, 9.66%; and after 30% declines, 7.18%.