The concept of time segmentation

Volatility

Investment markets don't go straight up. Instead, they experience profound bull and bear market cycles[1]. In inflation-adjusted terms, the average:

- Bull market delivered a +334% return and lasted 8.72 years. But bull markets have been as short as 1.50 years or as long as 29.25 years.
- Bear market generated a -41.4% loss and lasted 1.65 years. But bear markets have been as short as 0.25 years or as long as 4.08 years.

Long-run benefit

Nevertheless, over the long-run, the stock market has delivered a highly attractive rate of return. Since 1920, the S&P 500 Index generated a compound return of 7.88% per year, and this was over and above the rate of inflation[2].

Market timing

If one could time the market, knowing when to be in the market and when to be out, the results would be spectacular. Unfortunately, it is perilous to forecast the future of investment markets or the economy.

Throughout history, investment strategists and economists who attempted such predictions of the future have shown little to no success over that obtained from the simple flip of a coin.

The solution

Time Segmentation Investing. The concept is to segment or wall-off assets into separate "buckets," leaving them untouched (not drawing on or otherwise accessing these accounts) until they have reached their "maturity date" or "time destination." By using this approach, each segment (or bucket) is then given the time it requires to heal, recover, and grow again to new heights after having experienced a market downdraft.

An analogy

> ***"If your plan is for 1 year, plant rice. If your plan is for 10 years, plant trees.***
> ***If your plan is for 100 years, educate children."***
>
> Old Chinese Proverb

This proverb's lesson for investments is three-fold:

- Every goal has a specific time destination in the future.
- The best possible solution for each time destination is different.
- Investors must bring the required patience to any investment, giving it the time, it requires to sprout, grow, mature, and eventually be harvested.

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Structure of time segmentation investing

Customized solution

Each investor's needs, goals, and circumstances are different. Your advisor, working in partnership with you, will build a customized time segmentation solution - one that best fits your unique profile.

Generalized approach

Categorize your needs into five time segments and then construct a portfolio for each.

Rebalancing

Avoid timing between stocks and bonds based on subjective forecasts or predictions of the future. Instead, rebalance in a fashion that maintains a consistent, dependable, and time-tested approach. Use a strategy that has been shown to work during remarkably different market and macroeconomic environments.

Portfolio objective

Depending on the time segment, earn <u>at least</u> 3%, 4%, 5%, 6%, or 7% (annualized), not each month or year, but instead measured at the applicable destination.

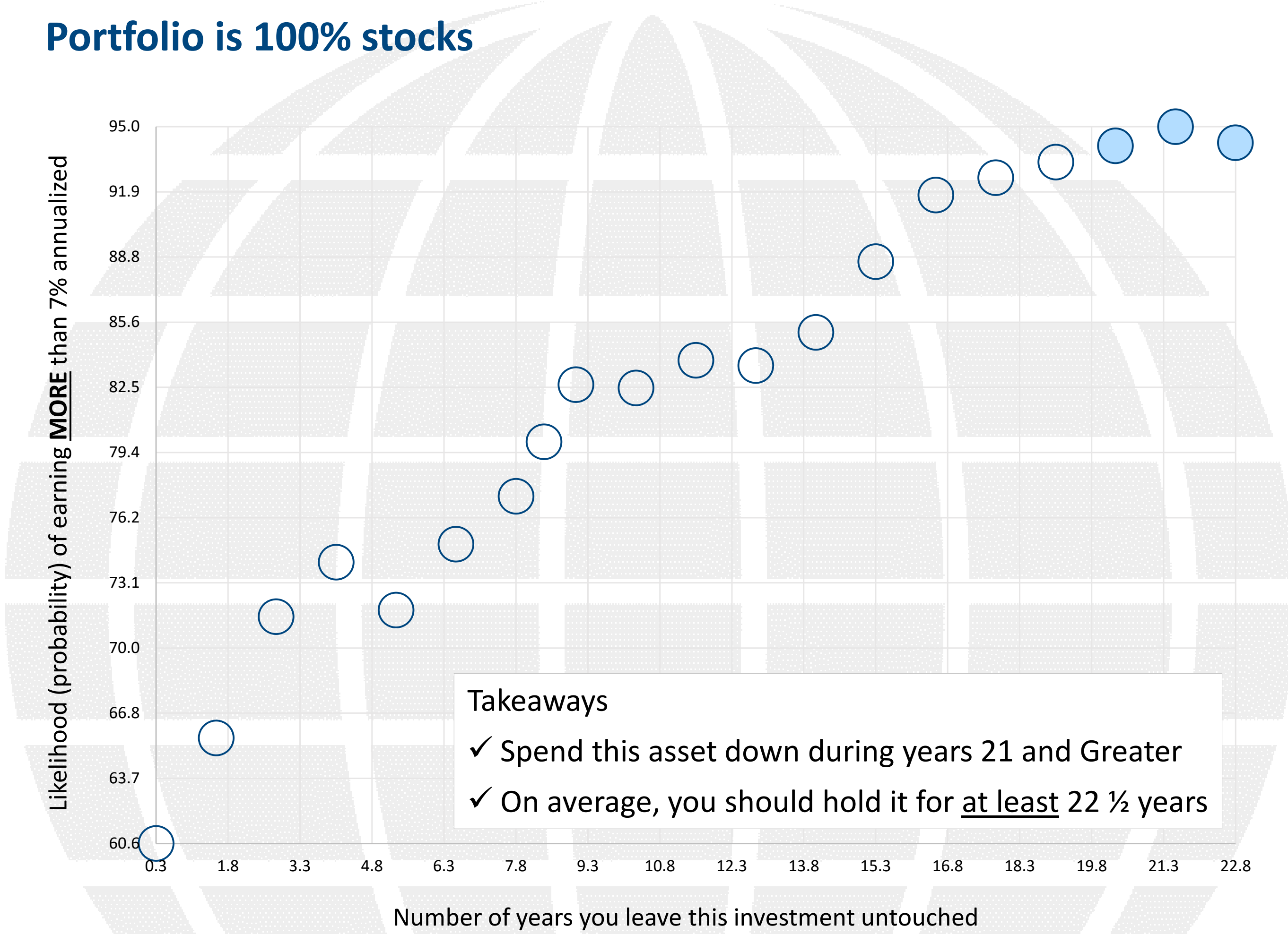
Has time segmentation investing worked?

Historical results for a portfolio invested 100% in stocks, i.e., a time segment 5 portfolio

As shown in the table above, our objective for this portfolio is to earn <u>at least</u> 7% per year, but measured only at the portfolio's destination. Time segment 5 portfolios have a destination that is 22 ½ years in the future.

	Time segment 1	**Time segment 2**	**Time segment 3**	**Time segment 4**	**Time segment 5**
Serves investor needs that arrive this number of years in the future	0 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	More than 20 years
Minimum required net return	3%	4%	5%	6%	7%
Destination (this number of years in the future)	2 ½ years	7 ½ years	12 ½ years	17 ½ years	22 ½ years
Invested in	Bond Portfolio	Short-Term Portfolio	Moderately Short-Term Portfolio	Moderately Long-Term Portfolio	Long-Term Portfolio
Policy asset allocation	100% bonds	25%/75% stocks/bonds	50%/50% stocks/bonds	75%/25% stocks/bonds	100% stocks

The following graph uses historical stock market returns from 1926 through the present[3] in order to answer the practical question *"How long do I need to wait in order to be pretty sure that I'll earn at least 7% when I use a 100% stock portfolio?"*



As shown in the graph above, waiting just six months gives us a 61% probability of earning at least 7% annualized. However, if we can wait 22 ½ years, the probability[4] of success climbs to 95%.

Historical results for a portfolio invested 75%/25% in stocks/bonds, i.e., a time segment 4 portfolio

As shown in the table above, our objective for this portfolio is to earn at least 6% per year, but measured only at the portfolio's destination. Time segment 4 portfolios have a destination that is 17 ½ years in the future. The following graph uses historical stock market returns from 1926 through the present[3] in order to answer the practical question *"How long do I need to wait in order to be pretty sure that I'll earn at least 6% when I use a 75%/25% stock/bond portfolio?"*

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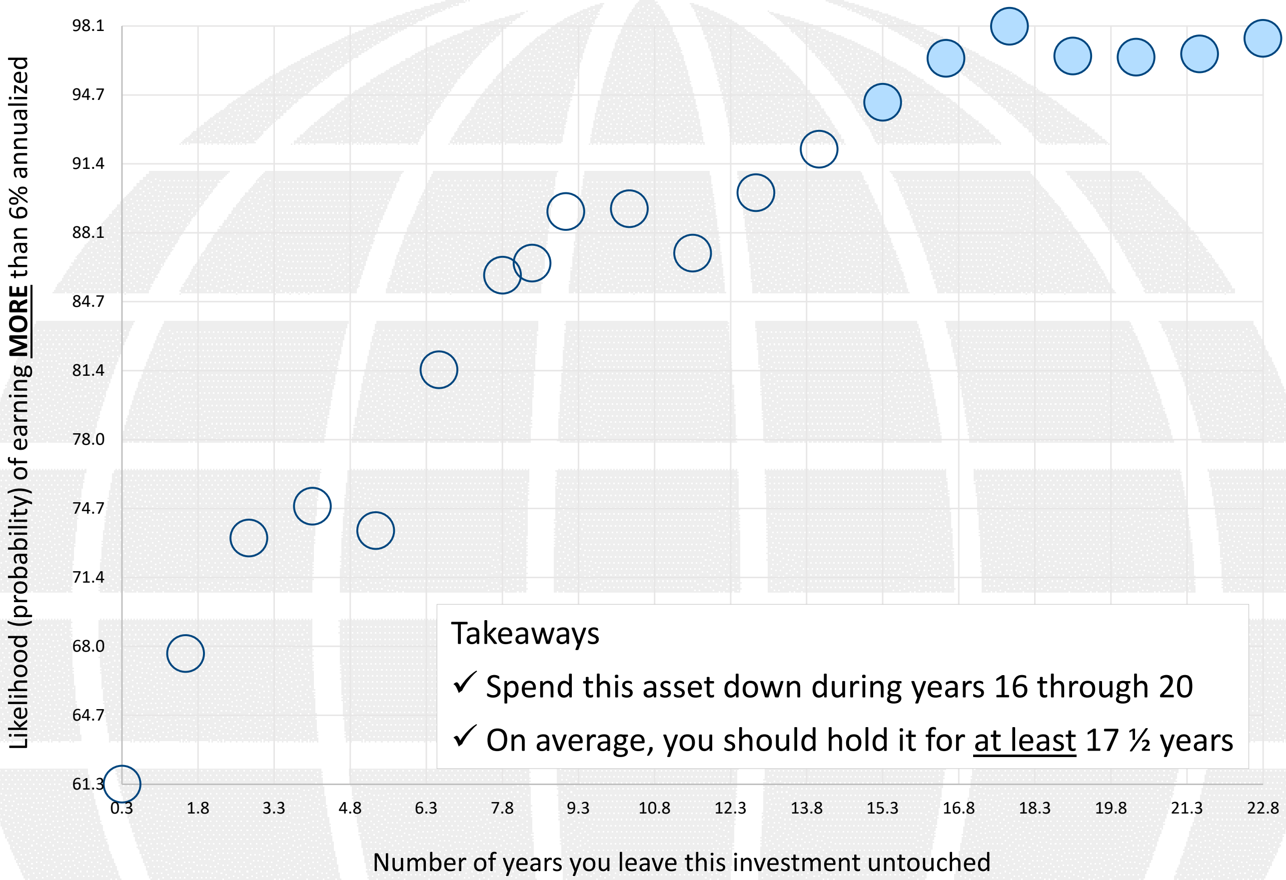
Portfolio is 75% stocks and 25% bonds

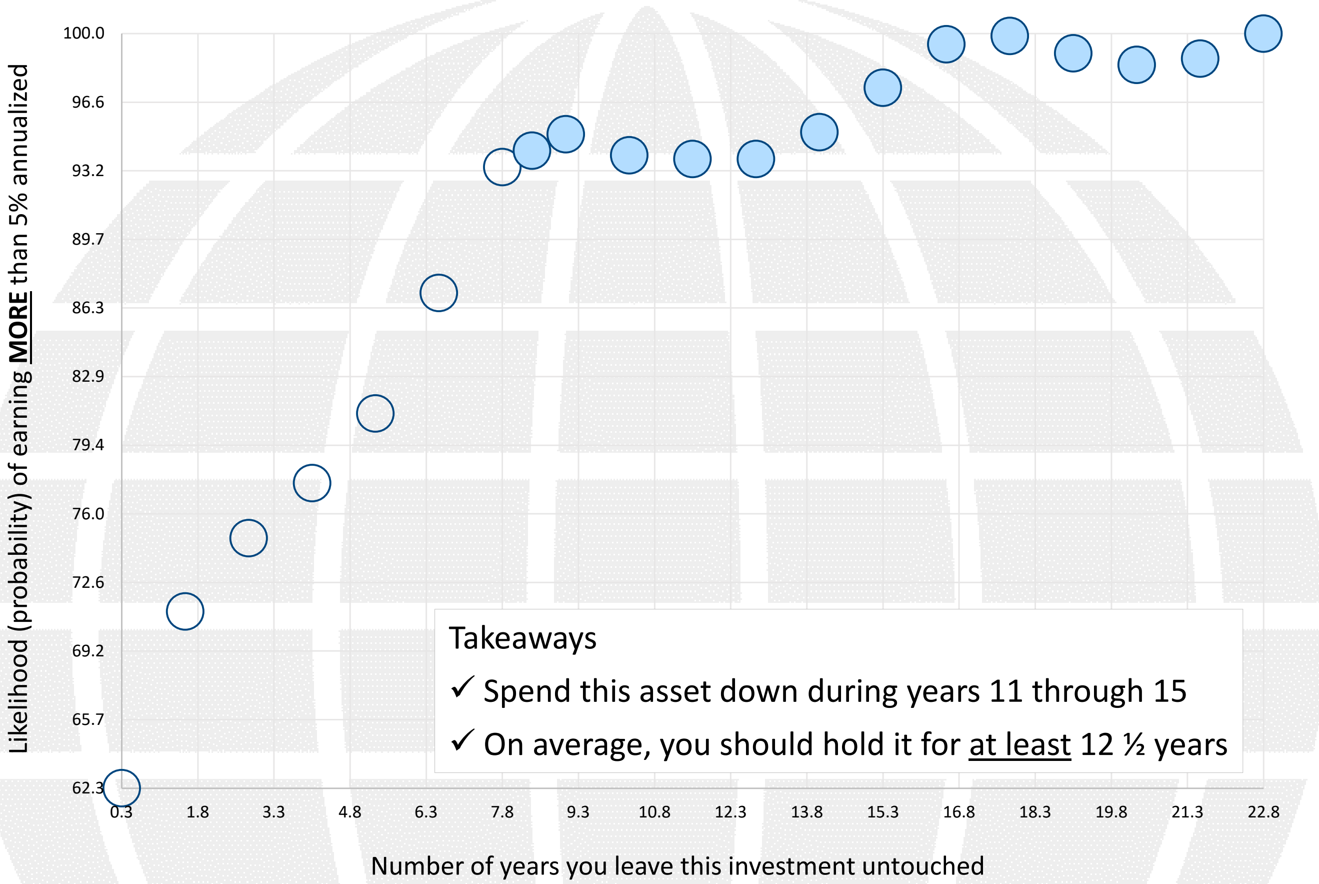


As shown in the graph above, waiting just six months gives us a 63% probability of earning at least 6% annualized. However, if we can wait 17 ½ years, the probability[4] of success climbs to 98%. Moreover, there is little to no benefit derived from waiting longer than 17 ½ years.

Historical results for a portfolio invested 50%/50% in stocks/bonds, i.e., a time segment 3 portfolio

As shown in the table above, our objective for this portfolio is to earn at least 5% per year, but measured only at the portfolio's destination. Time segment 3 portfolios have a destination that is 12 ½ years in the future. The following graph uses historical stock market returns from 1926 through the present[3] in order to answer the practical question *"How long do I need to wait in order to be pretty sure that I'll earn at least 5% when I use a 50%/50% stock/bond portfolio?"*

Portfolio is 50% stocks and 50% bonds



As shown in the graph above, waiting just six months gives us a 64% probability of earning at least 5% annualized. However, if we can wait 12 ½ years, the probability[4] of success climbs to 94%. Moreover, there is little to no benefit derived from waiting longer than 12 ½ years.

Historical results for a portfolio invested 25%/75% in stocks/bonds, i.e., a time segment 2 portfolio

As shown in the table above, our objective for this portfolio is to earn at least 4% per year, but measured only at the portfolio's destination. Time segment 2 portfolios have a destination that is 7 ½ years in the future. The following graph uses historical stock market returns from 1926 through the present[3] in order to answer the practical question *"How long do I need to wait in order to be pretty sure that I'll earn at least 4% when I use a 25%/75% stock/bond portfolio?"*

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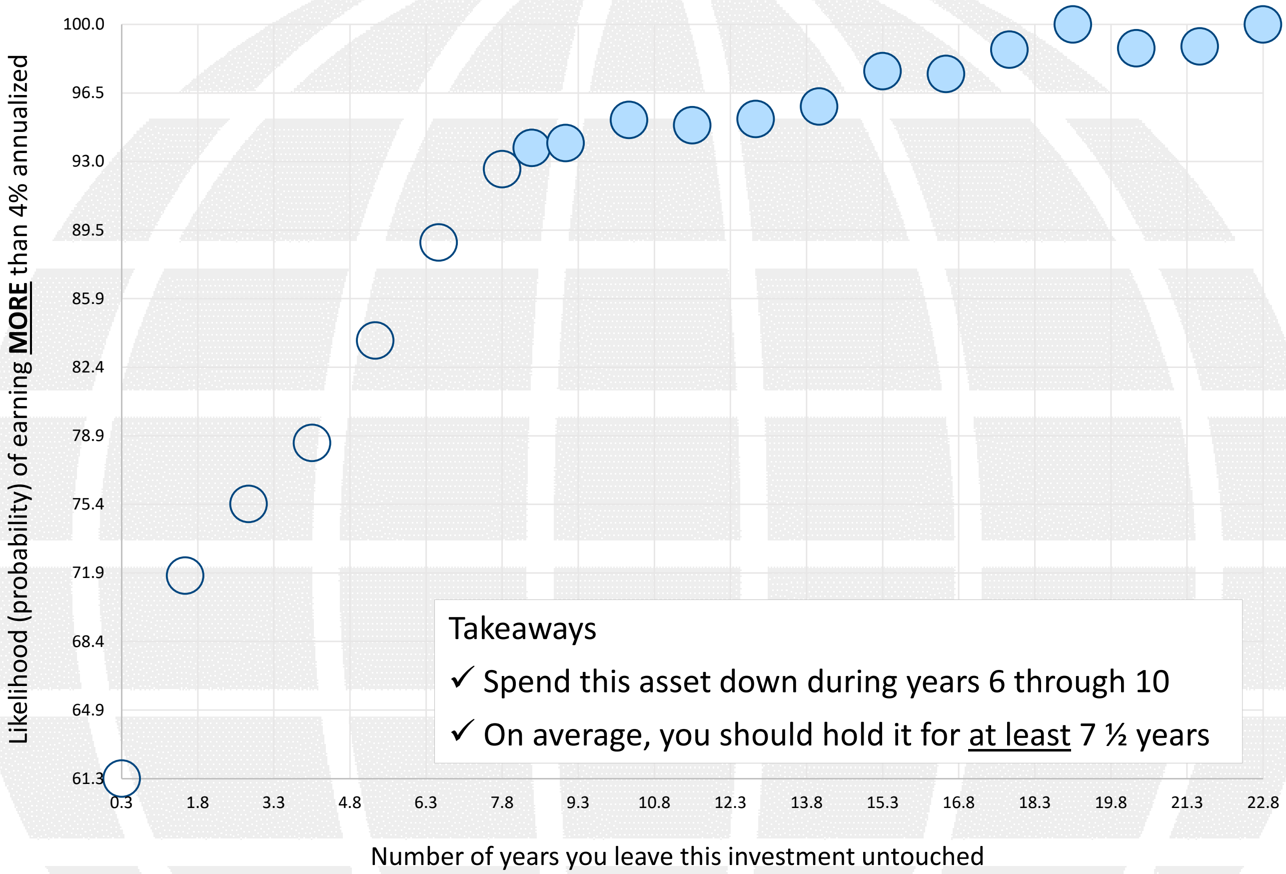
Portfolio is 25% stocks and 75% bonds



As shown in the graph above, waiting just six months gives us a 65% probability of earning 4% annualized. However, if we can wait 7 ½ years, the probability[4] of success climbs to 93%. Moreover, there is little to no benefit derived from waiting longer than 7 ½ years.

Important disclosures

1. The history of bear markets has been provided by Rob Brown, PhD, CFA and details of the computations and definitions underlying these bear market statistics can be found at www.robbrownonline.com located under the tab titled "BULL AND BEAR"

2. CPI inflation is represented by All-Urban, Not-Seasonally Adjusted, Consumer Price Index. All data and statistics were provided by Global Financial Data, Inc. at www.globalfinancialdata.com and span the time period starting on December 31, 1920 and ending on September 19, 2021.

3. Stocks are defined as 50% S&P 500 Index, 15% Russell 2000 Index, 15% MSCI EAFE Index, 15% MSCI Emerging Markets Index, and 5% Dow Jones U.S. Select REIT Total Return Index. This stock portfolio of indices is rebalanced monthly at month end. Bonds are defined as an equal-weighted portfolio consisting of the following five bond indices: USA 5-year Government Note Total Return Index, Dow Jones Corporate Bond Return Index, GFD Indices World x/USA Countries Government Bond GDP-weighted Total Return Index, GFD Indices USA Total Return AAA Corporate Bond Index, and GFD Indices USA 10-year Government Bond Total Return Index. This bond portfolio of indices is rebalanced monthly at month end. Balanced portfolios that consist of both stocks and bonds use the prior definitions and are rebalanced monthly at month-end. All data and statistics were provided by Global Financial Data, Inc. at www.globalfinancialdata.com. The probabilities are based on monthly returns spanning the time period June 1926 through September 2021, inclusive.

4. The probability of success reported here is backward looking and only reports on what did happen during the time window spanning June 1926 through September 2021, inclusive. These probabilities are not forecasts of the future.

It is not possible to invest in an index or a package or portfolio of indices directly.

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