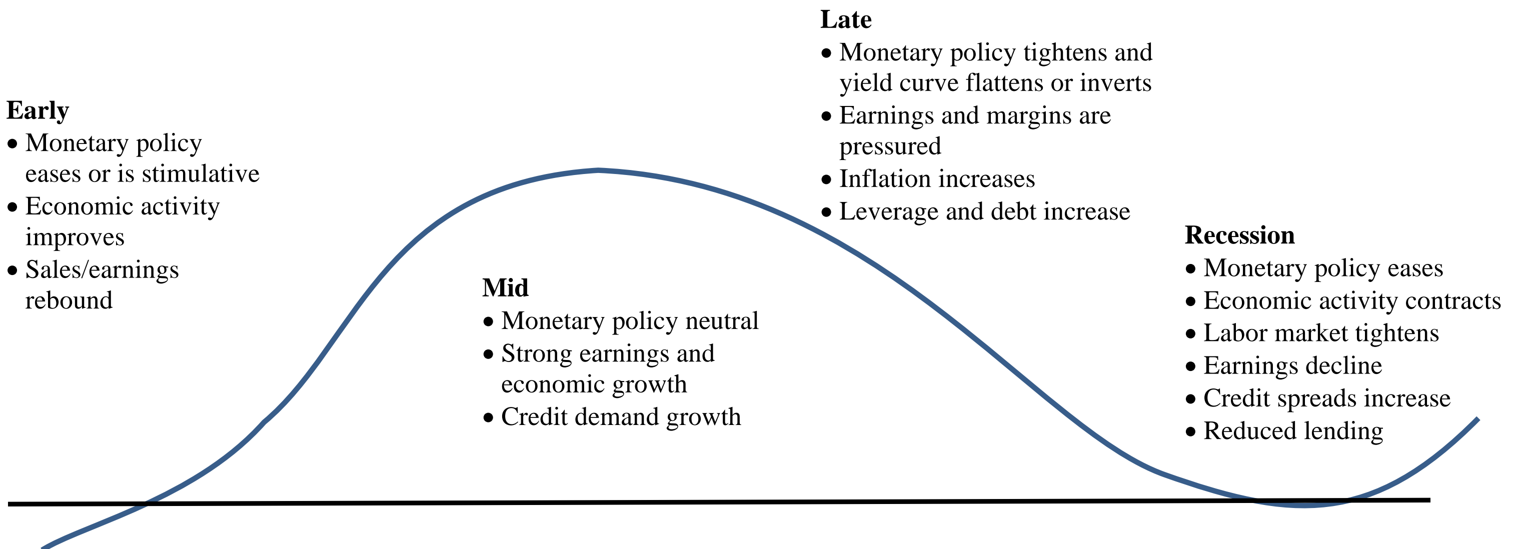
SilverOak
WEALTH MANAGEMENT LLC

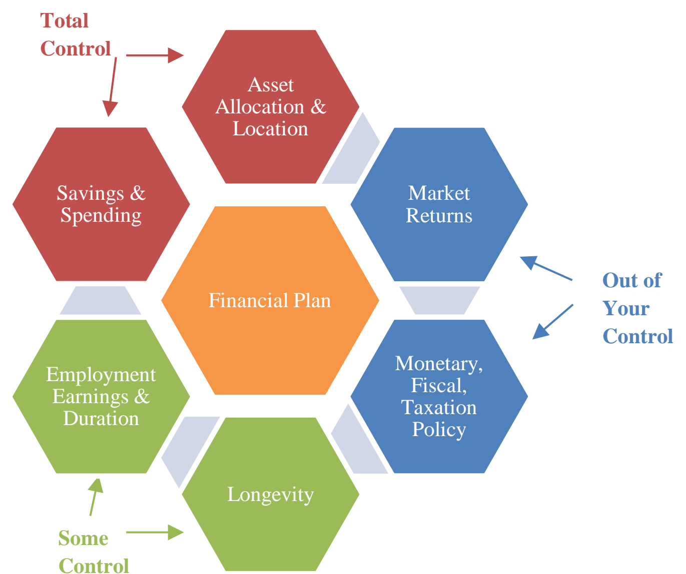
March 2025

Strategies for Enduring Market Cycles

In the dynamic landscape of financial markets, characterized by unpredictable fluctuations and cyclical patterns, having strategies to navigate the environment is crucial. Economic and stock market cycles inherently involve periods of growth and contraction. The graph and information below offer a generalized representation of an economic cycle. While pinpointing one's current position within a cycle is challenging, certain commonalities allow us to craft a narrative that aids in establishing expectations. It's important to recognize that market cycles are not strictly linear and can exhibit backward movements along the path. The following outlines typical indicators associated with each stage of the economic cycle.



Embedded within the economic cycle is the pervasive influence of behavioral biases on decision-making. In periods of market volatility, it is prudent for investors to focus on managing what is controllable: reviewing long-term portfolio allocations, revisiting risk tolerance, shoring up personal balance sheets and cash flow statements, and avoiding taking excessive risks or extending leverage beyond what is reasonable. It is important to prepare from a financial and mental standpoint to mitigate some of the effects from the roller coaster of market cycles.



Review your financial plan in relation to long-term goals

Protecting your portfolio against a market downturn is only a part of the overall financial plan. It is important to consider your overall financial situation, including income, assets, and liabilities, to help guard against some obvious and unforeseen risks. Revisiting your financial plan is a continual process that evolves as you go through life phases.

While these items are always important, their significance tends to be amplified during periods of stress.

- **Review your net worth statement** – Thoroughly examine both your assets and liabilities. Evaluate potential risks associated with your assets and their potential impact on your portfolio. Scrutinize your debts, understanding their interest rates, costs, and whether the rates are fixed or variable.
- **Balance your budget** – Track your spending and cut unnecessary expenses. Predetermine which expenses should be reduced in the event your income declines.
- **Deleverage –** Pay off your debts including credit cards, car loans, and student loans, especially if the debt has higher interest rates. Reduce financial risk by refraining from incurring additional debt.
- **Assess liquidity needs** – Create an emergency or "rainy day" fund. Aim to hold 6-12 months of living expenses in cash to fund unforeseen costs or lifestyle expenses if your income declines.
- **Continue to save and invest** – Over time this is the equivalent of dollar cost averaging
  - During a bear market, you want to continue to save and invest for retirement. While it might feel scary, you will be buying at lower prices. Over time, these investments will be key to meeting your long-term retirement goals.
- **Review your insurance coverage** – Determine that you have proper coverage and potentially shop around to ensure you are paying a fair rate. Don't automatically assume cheaper policies are better; read the fine print to understand your coverage.
- **Preserve or improve your credit score** – Go to annualcreditreport.com or call 1-877-322-8228 to get a copy of your credit report from all three credit bureaus. Review all the information to make sure it is accurate. Your score will likely improve by paying down your debt. Ensure that you make your payments on time.
- **Invest in yourself** – Continue building up your professional value through continuing education and networking with other professionals. Keeping your skills fresh to protect your income is perhaps the most important thing you can do.
- **If you are nearing retirement, you might consider working a little longer** – This will add to your savings and lower the amount taken out of your investments during tough times. These will both act to prolong your retirement savings.

Periodically review your portfolio

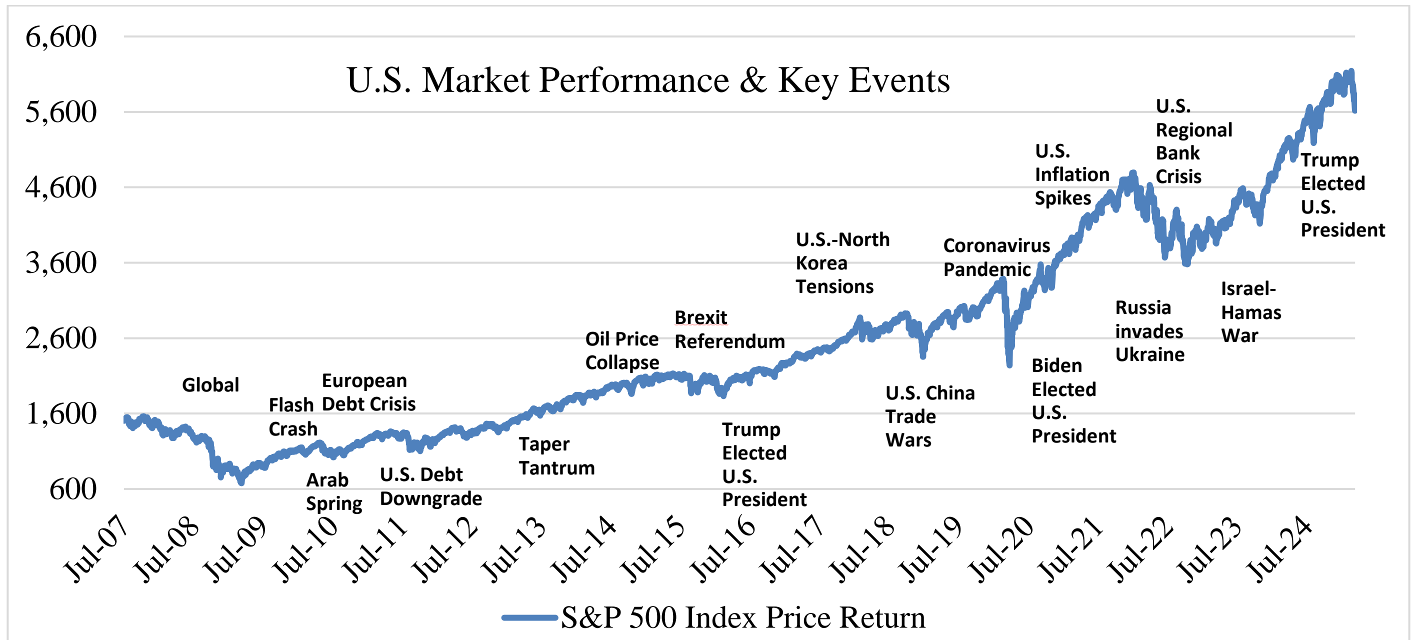
- **Reassess risk tolerance**
  - Your tolerance for risk is determined by both your willingness and ability to take risk. Over time, your risk tolerance, goals and time horizon may change. Sometimes, investors may feel they have a higher risk tolerance when assessed in a bull market; however, as the stock market declines, they discover their tolerance is less. You may feel, in theory, you can maintain an investment plan when the portfolio is down 20-30%, but how you feel in the moment may be different. It is important that your portfolio incorporates these parameters.
- **Rebalance the portfolio as the market moves**
  - If one does not do this regularly, your portfolio could own a much higher proportion of stocks than it started with initially. This imbalance could contribute to more downside volatility. Rebalancing also forces one to buy assets that are down and have the potential to rebound. Essentially, rebalancing is the systematic way of "buying low and selling high", effectively ensuring investors don't freeze-up in the face of challenging market returns.
- **Diversification matters**
  - As always, it's important to stay diversified. Asset classes can react differently during changing market and economic environments.
  - Diversification is often lauded when looking at past returns and is promoted as a rational plan when assessing future expectations. However, at any given moment, it can cause heartburn. While diversification contributes to achieving consistent returns and minimizes volatility, specific segments of the portfolio may exhibit varying levels of performance. Over an extended period, diversification offers advantages by enabling investors to participate in strong market sectors while mitigating the impact of weaker ones. Key point: Expecting simultaneous outperformance from all portfolio components contradicts the fundamental objective of diversification.
  - A balanced portfolio, though effective in meeting investors' goals, comes with its own trials – mainly behavioral. Due to its "slow and steady" approach, a balanced portfolio may leave investors wanting more in a bullish market. In the table below, however, you will see that investor mindsets change as quickly as the markets do, and over time, a blend of both stocks and bonds has provided favorable investment returns.

Years	Global Stocks	Global Bonds	Global Balanced (60% stocks/ 40% bonds)	Investor Mindset
2000-2002	-41.1%	22.1%	-20.1%	"Why do I own stocks?"
2003-2007	136.4%	37.1%	91.6%	"Why do I own bonds?"
2008	-42.3%	4.8%	-24.7%	"Why do I own stocks?"
2009-2019	220.2%	36.6%	132.9%	"Why do I own bonds?"
1Q 2020	-22.4%	-0.3%	-13.6%	"Why do I own stocks?"
2Q 2020-3/2025	109.4%	-7.3%	51.9%	"Why do I own bonds?"
Cumulative Returns	317.7%	121.4%	252.1%	
Growth of $100k	$417,721	$221,362	$352,054	

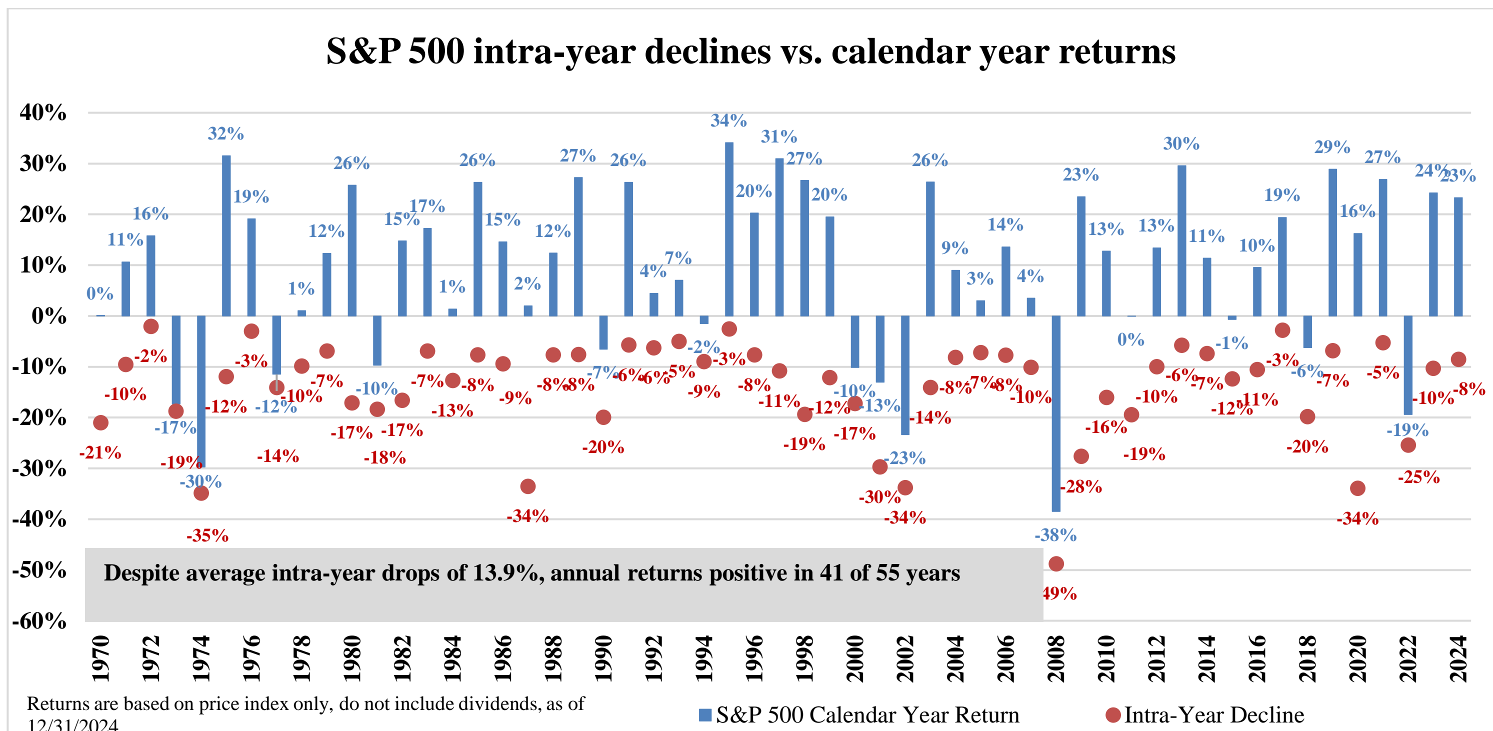
*Global Stock: MSCI ACWI IMI NR, Global Bonds: Bloomberg Global Agg TR, Global Balanced is rebalanced semi-annually from 1/1/2000-2/28/2025

Keep a Long-Term Perspective and Mitigate Behavioral Biases

The market tends to reward investors over the long-term; however, adhering to an investment plan can be challenging amid short-term volatility. There are constant risks, threats, geopolitical issues, economic concerns, etc., which we may tend to discount in hindsight; however, they can feel insurmountable when confronted in real-time.



As shown in the table below, market drawdowns are normal and may be more frequent than many people imagine. Even during very strong years, the markets have experienced meaningful pullbacks within the year. Despite these normal and frequent declines, the returns experienced during upward trends are considerably higher and more frequent, allowing investors to capitalize on the long-term growth of stocks.

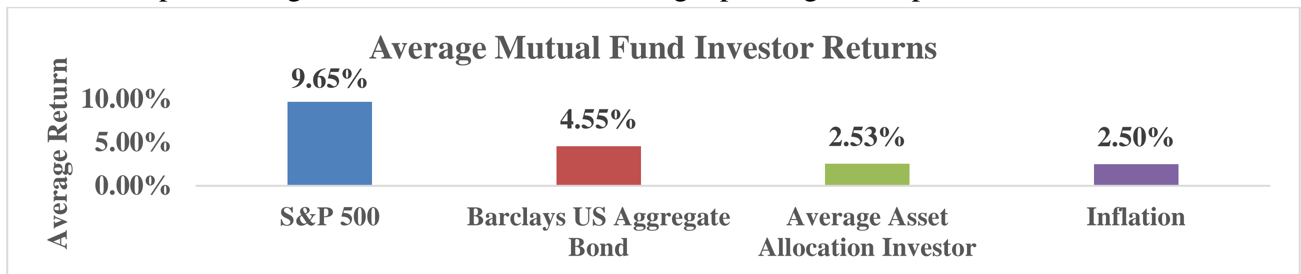


S&P 500 Index (1950-2024)				
Size of decline	-5% or more	-10% or more	-15% or more	-20% or more
Average frequency	About 2-3 times per year	About once every 12-18 months	About once every three years	About once every six years
Average length	46 days	135 days	256 days	402 days
Last Occurrence	July 2024	July 2023	August 2022	January 2022
Source: Capital Group, Morningstar, As of 12/31/24				

Market cycles usually include extended periods of economic expansion with short periods of contraction. Since 1950, there have been 11 bear markets with an average duration of 13 months and an average return of -35%. An economic recession occurred in 8 of the 11 bear markets. However, bull markets tend to be more powerful, with an average duration of over five years and an average cumulative return of 173%. While the ride is rarely smooth, you will benefit from thinking long-term.

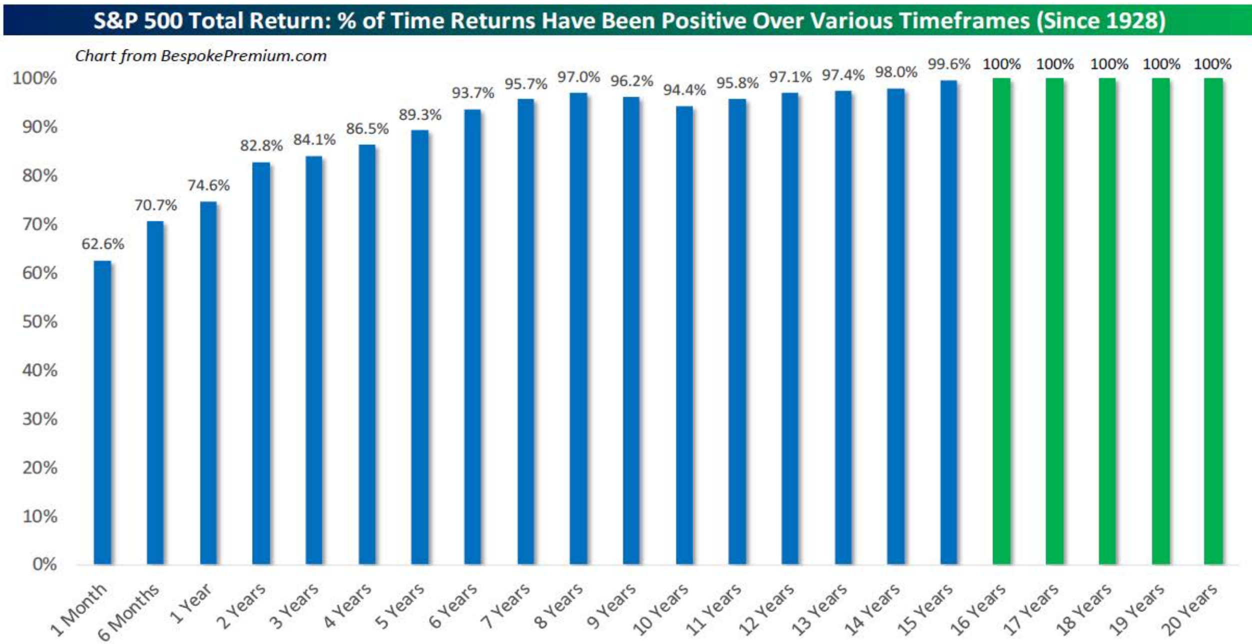
Navigating the complexities of down markets can be challenging. Below are tips on how to get some benefit from a down-market and insight into common investor mistakes.

- **Tax-Loss Harvest**
  - Make the best of a down market and use the opportunity to harvest tax-losses in the portfolio that can be used to offset current or future gains.
- **Common Investor Mistakes**
  - **Trying to time the market**
    - Many strive to market time, but few time it perfectly.
    - There are two decisions regarding selling equities – when to sell and when to get back in. You might be right on the first decision but get the timing wrong on when to get back into the market and thus be in a worse position.
      - Investing shouldn't be about going all-in or all-out of the market. You can systematically de-risk, but you must have a plan to add back.
      - Dalbar's investor study shows that individual investors have a poor track record in timing their investment decisions. As shown below, over the past 20 years, the average investor has significantly underperformed the stock market, the bond market and barely beat the pace of inflation. Dalbar's study attributes this underwhelming performance to investors' timing in buying and selling decisions. Typically, investors tend to buy when they feel optimistic about a well-performing market but sell after enduring a prolonged and painful downtrend.



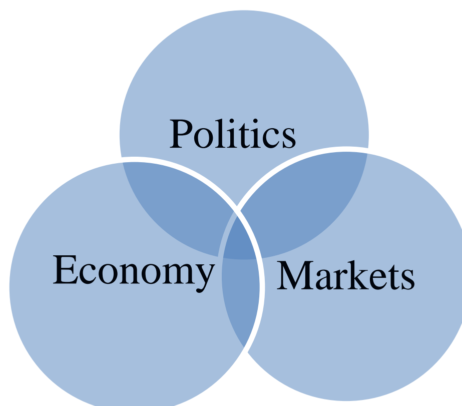
Source: Quantitative Analysis of Investor Behavior, 2023, DALBAR, Inc

- **Abandoning their investment plan**
    - Remain calm and stick to the plan. Don't make changes to your portfolio based on emotions, short-term views, or recent performance. Investing is inherently uncomfortable. Sometimes, the best action is no action. Time is your biggest ally, as compounding works for you.



Source: Bespoke Premium. Past performance is no guarantee of future success

- **Applying someone else's time horizon or risk tolerance to their personal finances**
    - When hearing market commentators, family or friends discuss the market, economy, politics, or their portfolio, remember that those individuals are commenting based on their views and circumstances. Often, it is not appropriate to apply someone else's circumstances to your own.
- **Letting behavioral biases influence portfolio decisions**
    - Historically, markets have trended upward, driven by earnings growth, despite persistent concerns over geopolitics, the economy, or valuations. However, investors are often tempted to adjust their portfolios based on their beliefs about how politics and the economy will influence future market performance. While these categories are interconnected, they do not have a direct correlation.



- **Monitoring performance too frequently**
  - Investors who monitor performance too frequently often become more conservative due to myopic loss aversion, as they experience volatility more intensely.
- **Waiting until the "sky is clear" to invest**
  - When headlines and markets are pessimistic it may be a sign that it is a good time for long-term investors to buy.
    - Significant downturns tend to be good buying opportunities. Over the long term, markets follow earnings. Historically corporate earnings have grown about 8% per year, doubling every nine years (the market is often the same).
    - Below is a chart that shows periods since 1950, when the market was down 25%, and the subsequent 1-year, 3-year, and 5-year returns. Price returns only.

Start Date	End Date	S&P 500 Change	Date Passed Decline Of At Least 25%	Further Decline To Bottom	Forward Return From At Least 25% Down Date:			
					1 Year	3 Years	5 Years	10 Years
12/12/1961	6/26/1962	-28.0%	6/14/1962	-3.7%	29.3%	54.6%	70.1%	99.5%
11/29/1968	5/26/1970	-36.1%	4/28/1970	-13.7%	30.5%	33.3%	7.4%	31.6%
1/11/1973	10/3/1974	-48.2%	4/25/1974	-30.5%	-3.3%	8.5%	14.4%	77.1%
11/28/1980	8/12/1982	-27.1%	8/5/1982	-2.6%	53.8%	81.3%	202.8%	301.5%
8/25/1987	12/4/1987	-33.5%	10/19/1987	-0.4%	23.2%	39.0%	84.6%	325.0%
3/24/2000	9/21/2001	-36.8%	3/20/2001	-15.5%	0.8%	-4.1%	14.2%	13.6%
1/4/2002	7/23/2002	-32.0%	7/19/2002	-5.9%	15.5%	45.0%	83.2%	62.4%
10/9/2007	3/9/2009	-56.8%	9/17/2008	-41.5%	-7.9%	4.1%	47.4%	149.8%
2/19/2020	3/23/2020	-33.9%	3/12/2020	-9.8%	59.0%	55.4%	?	?
1/3/2022	10/12/2022	-25.4%	9/30/2022	-0.2%	25.9%	?	?	?
Average		-35.8%		-12.4%	22.7%	35.2%	65.5%	132.6%

As advisors, our role involves navigating the shifting tides of market cycles. In the upcoming years, which are expected to present challenges and opportunities, we urge clients to contact their SilverOak advisors with any questions or concerns. We consistently collaborate with clients to define goals, evaluate cash flow, and establish realistic portfolio return expectations. These collaborations become more critical during periods of heightened stress. At SilverOak, our commitment is unwavering in assisting clients in realizing their dreams, not just for the present but for the long-term future.

Disclaimer:
Information and analysis provided in this white paper are for general and educational purposes only. Any opinions expressed in this summary are not intended to be accounting, legal, tax or investment advice.

Investment decisions should be made based on an investor's specific circumstances taking into account items such as, risk tolerance, time horizon and goals and objectives. All investments have some level of risk associated with them and past performance is no guarantee of future success.

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