ROCKBRIDGE
INVESTMENT MANAGEMENT

FINANCIAL COMMON SENSE January 2020

THE ROCKBRIDGE TEAM:

Craig Buckhout, CFA, CPWA
Anthony Farella, CFP®
Patrick Rohe, CFP®
Edward Barno, CPWA
David Carroll, CFP®
Claire Kobylanski
Kevin Sullivan, CFP®
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Mike Antonacci, J.D.
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Patricia Edwards
Julie Murfitt
Julia Conlan
Robert Ryan, Ph.D.
Edward Petronio, Ph.D.
Richard Schlote

Our vision at Rockbridge is to provide our clients with unrivaled financial advice; building lifelong relationships and empowering them to fully enjoy their lives.

We believe the success we share with our clients is driven by a relentless focus on our culture and core values: Honesty, Curiosity, Discipline and Excellence.

Rockbridge Names Chief Executive Officer (CEO)

You may spot the good news in the press sometime soon, but we wanted you to be among the first to hear it, straight from us! Please join us in congratulating Patrick Rohe, CFP® as we name him **Chief Executive Officer** of Rockbridge Investment Management.

Why the change? It's an opportunity to recognize Patrick for the contributions he's already made, as well as for his continued leadership in attracting and mentoring talented new team members.

More than that, you deserve no less from us. Through the decades, our vision has been to help Central New York families enjoy their wealth across generations. For that, we too must evolve and enhance our client care and our participation in the community.

To that end, Patrick will continue to engage directly with clients in his role as a senior financial advisor. As CEO, he'll also focus on spreading the word about our services and positioning us for growth. Firm founders Craig Buckhout and Anthony Farella will continue as senior advisors and will join Patrick in providing strategic leadership as part of the firm's management committee.

Had we searched the country over, we could not have found anyone more ideal than Patrick for this newly created position. First, as many of you know, his roots are firmly planted here in Syracuse. Having grown up on his family's dairy farm just outside of town, he still enjoys spending some of his free time lending a hand at the homestead.

Patrick also has been instrumental in shaping the character of our firm. As he says, "We still want to grow our business here at Rockbridge, but with a deliberate eye toward helping more families, and attracting new team members from an incredible pool of local talent. Through thoughtful growth, we look forward to striking that balance for our firm, our growing team, and our community."

Please get in touch with us with your questions or comments … and congratulations to Patrick!◆

Reassessing Volatility *by Ethan Gilbert*

2018 was a less pleasant time to be an investor. In the four trading days leading up to that Christmas, the market dropped 7.7%, capping off what was a nerve-racking year for investors. But when we delved deeper, we found that 2018's volatility wasn't that unusual.

One measure of market volatility is looking at the number of days in which the market moves more than 2% in either direction. Since 1928, the stock market has annually averaged 17 such "volatile days", and over the last 30 years, the average stands at 16.

Reassessing Volatility *Continued*

In 2018 we had 20 volatile days, making it more volatile than usual but not horribly so. One of the reasons it felt so volatile was because prior years lacked volatility, including 0 volatile days in 2017. Overall, 2019 was a pleasant year to invest. The market had a smooth ride with U.S. large caps up around 30% at the time of this writing, making 2019 the 17th best year since 1928.

Last year we only saw 7 days of high volatility and two of those had happened by January 4th. In August we witnessed three such days, all negative movements, as investors began to fret about an upcoming recession. However, the slow-down has not materialized and the market rallied to close out the year.

It pays to be invested, and part of the reason long-term returns are so good is because it's not easy to stomach market losses when things are bad. Staying grounded is key; when we have years like 2018 it's important to remember the years like 2019 and vice versa.

Unfortunately, bad times will come, and when they do, we can take comfort remembering we've survived worse. In 1932, there were 133 volatile days, more than half of the year's 250 trading days. The stock market dropped 43%, nominal GDP declined 23%, the dollar deflated 10%, and unemployment stood at 24%... but hey, the U.S. cleaned up at the Los Angeles Summer Olympics (in fairness, the number of countries participating declined 20% from 1928 to 1932 due to cost).

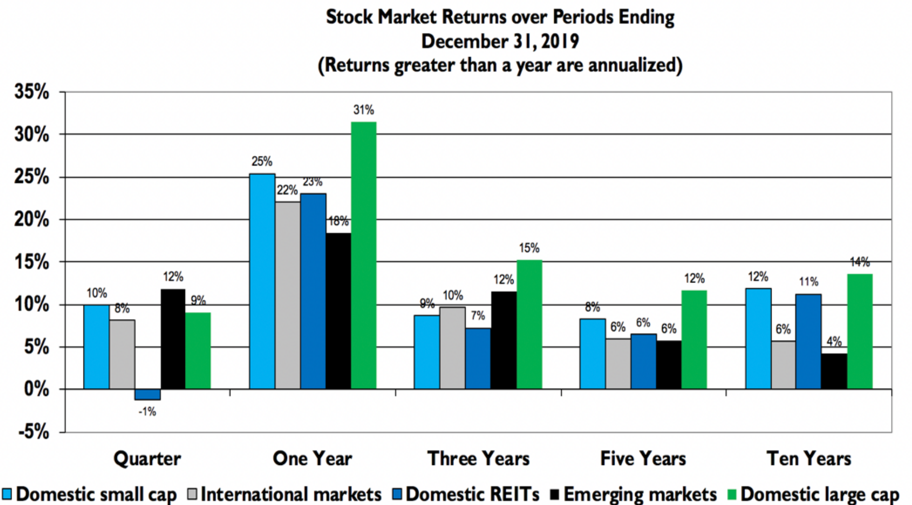
So, what's the lesson here? Volatility is normal and we can't predict its arrival. 2019 was a low volatility year with great returns while 2018 was the opposite. However, being invested through both has made investors better off. Stay invested, diversify, and rebalance when volatility strikes (buy low, sell high). This isn't always easy to do, but it's one of the main reasons we are here as your financial partner. ◆

Market Commentary *by Bob Ryan*

Stock Markets

Stocks were up nicely this quarter except for Real Estate Investment Trusts (REIT) which is quite a turnaround from last year's fourth quarter. The one-year numbers, including REITs, are well above what it is reasonable to expect over the long run, but are necessary from time to time to make up for the down markets we will endure going forward. Overall it has been a good year for stocks.

Domestic markets, especially large-cap stocks (S&P 500), have outpaced both international and emerging markets over longer periods. Because many consider the S&P 500 as the "stock" market, looking backward makes it easy to focus only on allocations to this index. Investment decisions are made by looking ahead where global diversification is expected to payoff.



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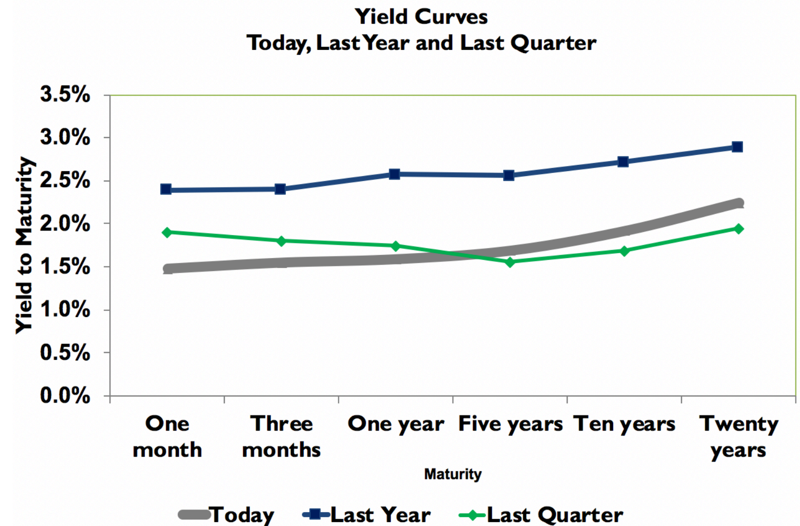
Market Commentary *Continued*

Bond Markets

A yield is what you earn by holding a bond to its maturity. Changes in yields drive returns – falling yields are positive; rising yields negative. The longer a bond's maturity, the greater the impact a given change will have on prices and returns.

Note to the right that bond yields at the longer end ticked up but fell at the shorter end producing negative returns for longer maturing bonds and positive returns for short-term bonds. This twisting of the yield curve brought the pattern of yields across several maturities- although low by historical standards- back to its more "normal" upward sloping shape.



Impeachment

The U.S. House of Representatives voted to Impeach President Trump with hardly a ripple from capital markets. It's conventional to think the third impeachment in our history would impact stocks – why didn't it? This impeachment was not a surprise and it didn't impact those factors that determine a stock's value.

It's the present value of future cash flows that determines price. To determine this number, we need both expected cash flows and an interest rate. As new information about what's important to determining both cash flows and the appropriate rate is received, prices will respond. If the information is not relevant, then they will not. While some governmental activities are important (e.g. international trade negotiations), the impeachment story has not been important to markets. To affect values not only must the news be relevant, it must be a surprise. Impeachment had been anticipated for some time. Therefore, no impact

A Twenty-Year Perspective

It's been a good year, but let's put it in perspective by looking at some history. The past twenty years produced an average 7% return from global equity markets amid significant ups and downs. This year's 24% return was well-above this average. Over this period, we had to endure some significant down years, including a three-year run of double-digit losses at the beginning. Seeking to avoid the pain of a fourth loss would mean missing the dramatic up market of the following year. Then after a few years of up markets, we went through the gut-wrenching drop of over 40% in 2008. This year's results are not necessarily extraordinary in view of the ups and downs of the past twenty years – it's how equity markets work. Seeking to avoid this variability is apt to mean missing out on years like this one.

The past twenty years are reasonably representative of how equity markets behave over extended periods. Don't pay any attention to the myriad of predictions that are typical for this time of year – they're usually wrong. Focus instead on the appropriate tolerance for variability whilst expecting commensurate returns over the long run. ◆

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Returns from Various Markets

The following table shows the returns from various markets over periods ending December 31, 2019:

Market/Asset Class	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
FIXED INCOME							
3-Month US Treasury Bills	0.46%	2.28%	2.28%	1.67%	1.07%	0.58%	1.78%
Bloomberg Barclays US Agg Bond	0.18%	8.72%	8.72%	4.03%	3.05%	3.75%	5.03%
Bloomberg Barclays 1-5 Yr Credit	0.84%	6.58%	6.58%	3.31%	2.71%	3.07%	4.46%
DOMESTIC STOCKS							
S&P 500	9.07%	31.49%	31.49%	15.28%	11.70%	13.56%	6.06%
S&P 500 Value	9.93%	31.93%	31.93%	11.49%	9.52%	12.16%	6.34%
S&P 500 Growth	8.32%	31.13%	31.13%	18.68%	13.52%	14.78%	5.21%
Russell 2500	8.54%	27.77%	27.77%	10.34%	8.93%	12.58%	8.68%
Russell 2500 Value	7.07%	23.56%	23.56%	6.13%	7.18%	11.25%	9.70%
Russell 2500 Growth	10.57%	32.65%	32.65%	15.18%	10.84%	14.01%	6.68%
MSCI US REIT	-0.78%	25.84%	25.84%	8.06%	7.03%	11.93%	11.18%
INTERNATIONAL STOCKS							
MSCI EAFE	8.17%	22.01%	22.01%	9.57%	5.67%	5.50%	3.32%
MSCI Emerging Markets	11.84%	18.44%	18.44%	11.58%	5.61%	3.68%	6.90%
U.S. Consumer Price Index	0.17%	2.38%	2.38%	2.13%	1.84%	1.76%	2.14%