



ARE YOU AWARE OF THE RISKS IN YOUR PORTFOLIO?

When it comes to investing, risk is often overlooked.

Investors tend to focus on the total return without considering the amount of risk taken to generate that return.

LET'S CONQUER RISK TOGETHER



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MEASURING RISK

There are many ways for investors to measure risk. However, the primary measure of risk focused on here is maximum drawdown. This term may be unfamiliar, as it is not widely used in the financial media; however, it is an excellent way to measure risk in the real world.

Maximum drawdown is the magnitude of decline from an investment's highest value to its lowest value during a given period. Over time, this becomes the pain factor when investments decline in bear markets.

No matter the long-term results of any investment, you must be able to tolerate the maximum drawdown to consider it a suitable investment choice for your risk level.



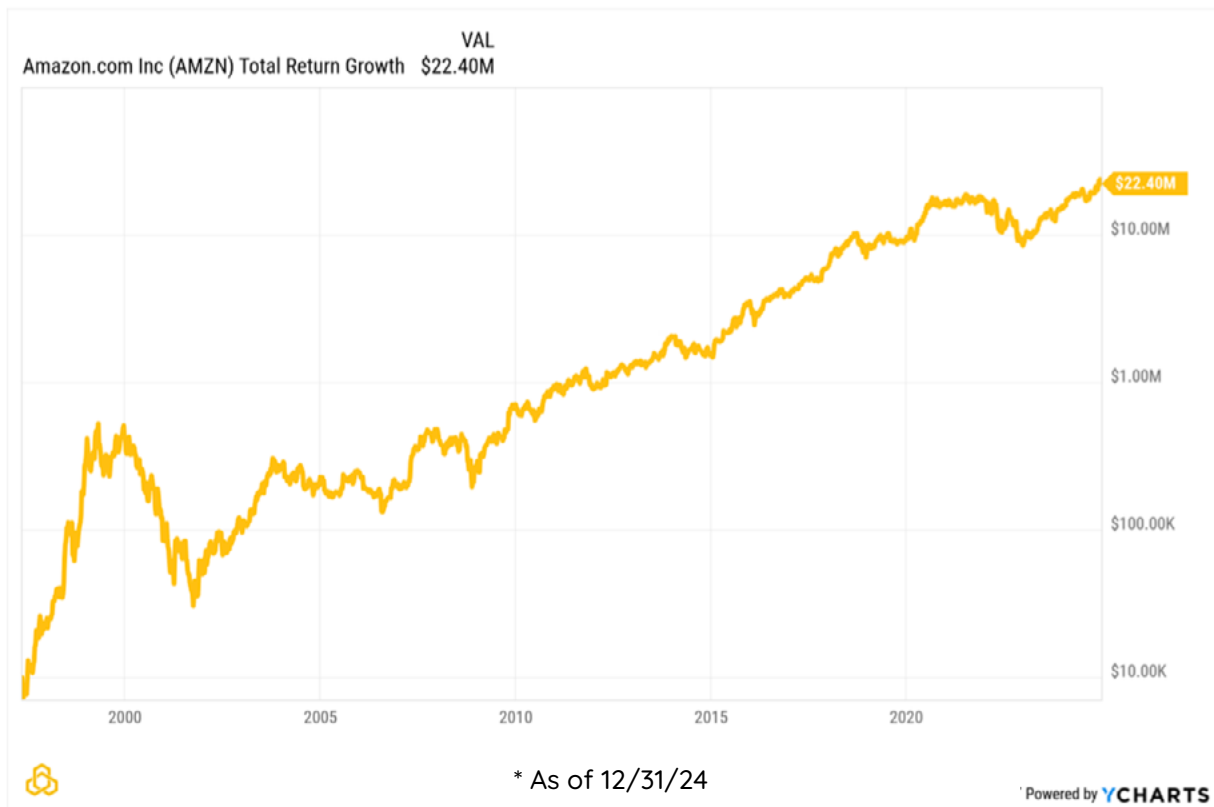
*This chart is for illustrative purposes only and must not be relied upon to make investment decisions.

Investors tend to ignore the dramatic effects of market losses, because the allure of market gains can be powerful.

— UNDERSTANDING RISK —

It doesn't help that the media loves to play mental gymnastics when it comes to the stock market FOMO. We have all seen the headlines about how much money you would have if you had purchased a stock years ago.

For example, if you purchased \$10,000 of Amazon at IPO, it would be worth \$22.4 million as of 12/31/24.

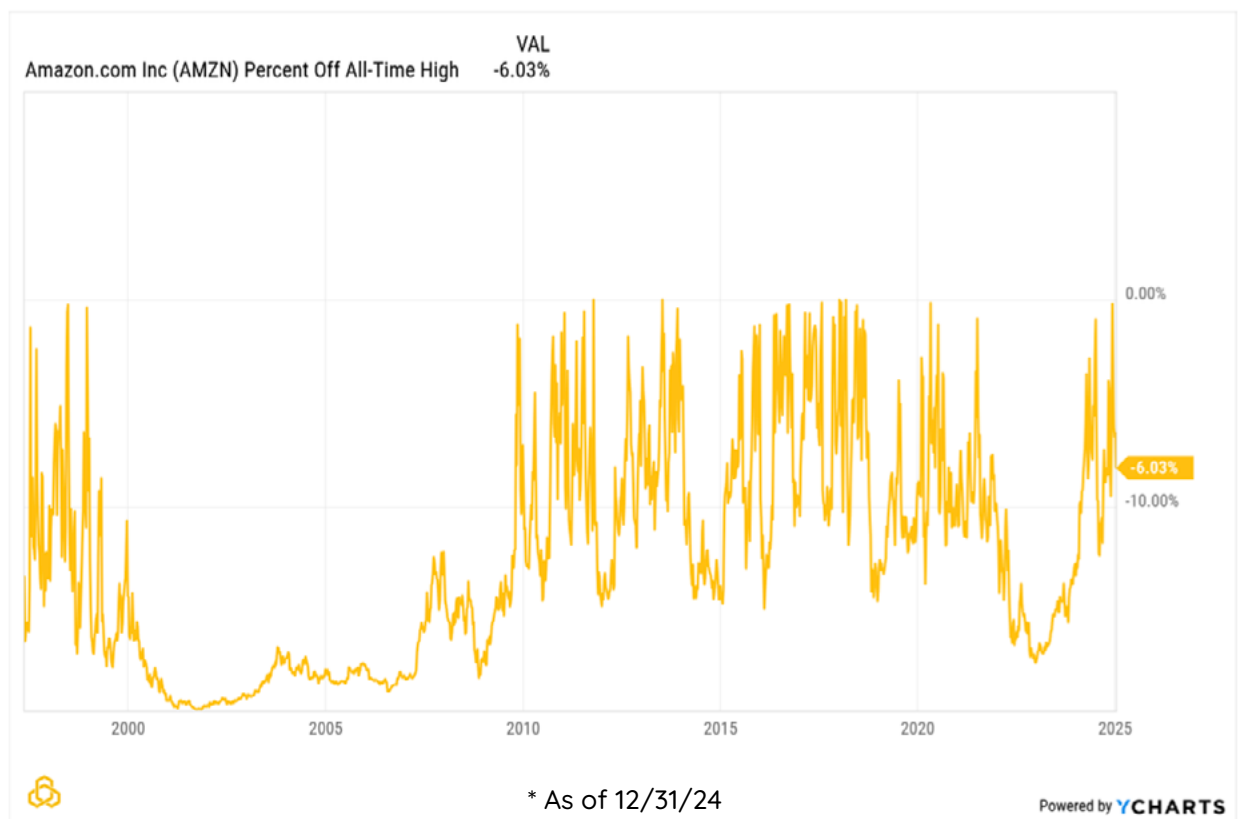


Past performance is not indicative of future results.

There is, of course, a HUGE but...

— UNDERSTANDING RISK —

...they fail to mention the amount of RISK and fortitude needed to achieve this gain. During this almost 25-year period, you would have to tolerate multiple declines of -50% or more, including a gut-wrenching -94% decline during the dot com burst.



Past performance is not indicative of future results.

Could your heart handle this ride?

CONQUERING RISK

Most financial advisors would never recommend a single stock investment portfolio. However, in many cases, the largest and most widely used diversified mutual funds are not much better.

Do you know the Maximum Drawdown of some of the largest funds in the industry? It may surprise you.

FUND NAME	MAXIMUM DRAWDOWN Monthly as of 12/31/2024
American Funds Growth Fund of America AGTHX	-61.29%
Dodge and Cox Fund DODGX	-63.21%
Fidelity Contrafund FCNTX	-49.21%
Vanguard 500 Index Investor VFINX	-55.26%

THE QUESTION REMAINS, WHY IS THIS IMPORTANT?

CONQUERING RISK

One of the major tenets of risk management is the importance of avoiding catastrophic losses.

All investments incur losses at some point in time, but it is extremely important to keep losses recoverable. Besides the simple fact that downside risk management is the key to long-term investing success, it also allows for peace of mind.

Let's look at a simplified example that examines the mathematics of advances and declines:

Year(s)	Investment A	Investment B
1	22.00%	35.00%
2	8.00%	18.00%
3	-7.00%	-30.00%
Annualized	7.01%	3.70%

*For illustrative purposes only. This data does not reflect actual performance of an account. Past performance is not indicative of future results.

Most investors would select Investment B based solely on the large gain in year 1. However, if you annualize those numbers, the importance of avoiding catastrophic losses becomes very apparent.

The reason behind this outcome comes down to simple mathematics that most investors ignore:

Let's say you start with \$100,000 and lose 50%. The account is now at \$50,000, and in order to get back to your original investment, you would need a 100% return.

Conversely, if your account declined 10%, it would be at \$90,000, and in order to get back to your original investment, you would only need a gain of 11.1%.

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IMPORTANT DEFINITIONS USED IN THIS REPORT

Drawdown: A Drawdown is any losing period during an investment record. It is defined as the percent retrenchment from an equity peak to an equity valley. A Drawdown is in effect from the time an equity retrenchment begins until a new equity high is reached. Drawdown data is daily data, from Ycharts, and uses funds with an inception date greater than 10 years.

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