



# Quarterly Market Review: 2022-Q1

## For ClearLogic Financial

The US equity market posted negative returns for the quarter and underperformed non-US developed markets, but outperformed emerging markets. Value outperformed growth. Small caps underperformed large caps. REIT indices outperformed equity market indices.

The first chart is a snapshot of the market performance for the first quarter. The second chart shows the world markets and events over the last twelve (12) months. Your 2022 first quarter portfolio review report is posted in your Tamarac portal.

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q1 2022	STOCKS				BONDS	
	-5.28%	-4.81%	-6.97%	-3.81%	-5.93%	-4.05%
Since Jan. 2001						
Average Quarterly Return	2.4%	1.6%	2.8%	2.6%	1.0%	1.0%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	2009 Q2	2009 Q2	2009 Q3	2001 Q3	2008 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4	2022 Q1	2022 Q1

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved. Bloomberg data provided by Bloomberg.

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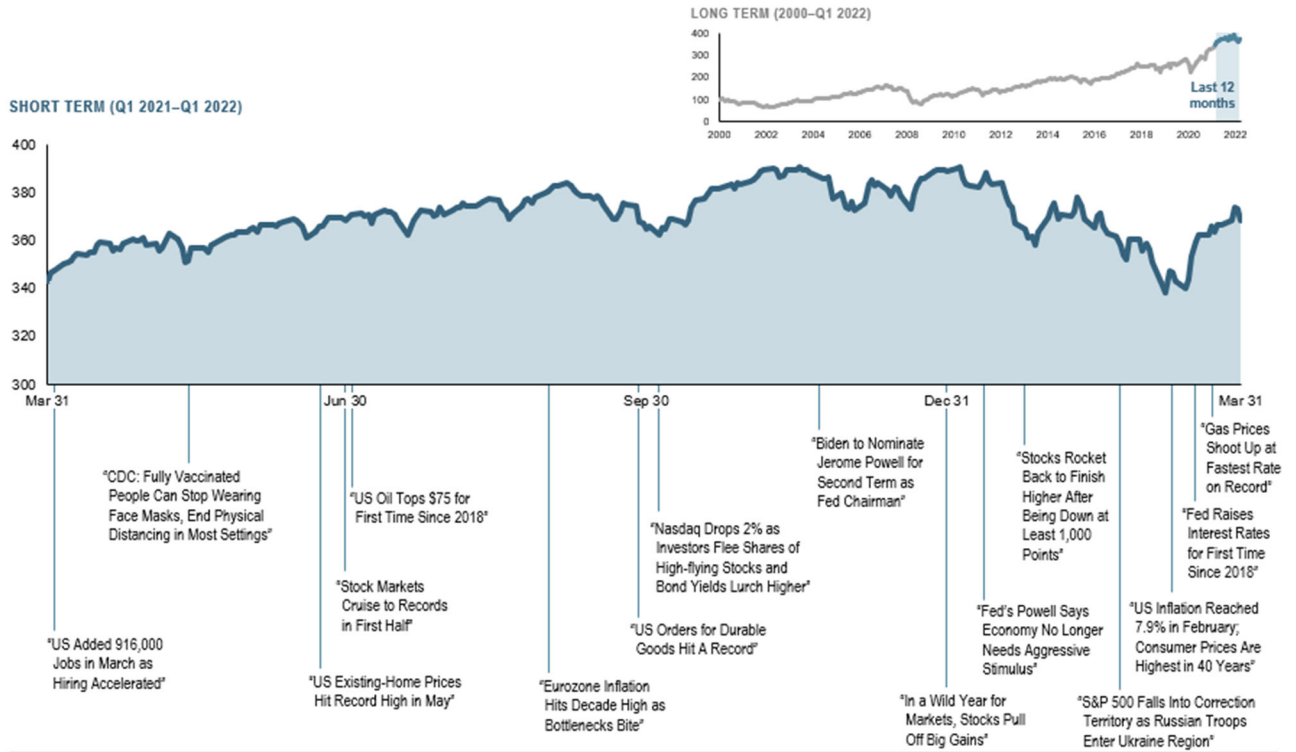
Past performance may not be indicative of future results. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns.

All investing involves risk, including the potential for loss of principal. There is no guarantee that any investment plan or strategy will be successful.



# World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

Graph Source: MSCI ACWI Index [net dividends]. MSCI data © MSCI 2022, all rights reserved. It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.



## Is It Time to Sell Stocks?

Weston Wellington, DFA Vice President

After touching record highs in early January, US stocks<sup>1</sup> have slumped, and investors have been confronted with worrisome headlines<sup>2</sup> in the financial press:

### “Inflation 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.<sup>3</sup>

#### EXHIBIT 1

##### Stock Slump

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	-82.5%	-77.9%
GameStop Corp. Class A	GME	-89.3%	-77.4%
Tesla Inc.	TSLA	-15.0%	-24.7%

**Past performance is no guarantee of future results. Performance may increase or decrease as a result of currency fluctuations.**

Source: Bloomberg.

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.

Is rising inflation 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 find 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 find them, our portfolios would do so much better.



Consider Felicity Foresight. She is gifted with the ability to identify patterns in the champagne bubbles floating 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**).

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

**Past performance is no guarantee of future results. Performance may increase or decrease as a result of currency fluctuations.**

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.

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.

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 flashed 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*.<sup>4</sup> But no crash occurred, and the S&P 500 had its highest September return since 1939.<sup>5</sup>



The money management industry is highly competitive, with more stock mutual funds and ETFs available in the US than listed stocks.<sup>6</sup> If someone could develop a profitable 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<sup>7</sup>, 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 non-surviving 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 short-term shifts between asset classes in their own portfolios.”<sup>8</sup>

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

**Past performance, including hypothetical performance, is no guarantee of future results. Performance may increase or decrease as a result of currency fluctuations.**

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-year period, typically the average quarterly changes between equity regions and bond sectors exceeds 15% or the difference between the maximum and minimum exposure to a single equity region or bond sector exceeds 50%.”

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 discomfoting. 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 find it extraordinarily difficult 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.<sup>9</sup> But during this quarter-century, missing just the best consecutive 90-trading-day period (which ended June 22, 2020) shaved the ending wealth figure by an alarming 33%.<sup>10</sup>

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.



As a thoughtful financial advisor once observed, “A portfolio is like a bar of soap. The more you handle it, the less you have.”

We hope you are enjoying Spring!

1. As of January 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, August 14, 2010.
5. Weston Wellington, "Hindenburg Omen Flames Out," Down to the Wire (blog), Dimensional Fund Advisors, October 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, September 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.
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