



Quarterly Market Review: 2021-Q4

For ClearLogic Financial

The US equity market posted positive returns for the year and outperformed non-US developed and emerging markets. Value underperformed growth in large cap stocks but outperformed growth in small cap stocks. Small caps underperformed large caps. REIT indices outperformed equity market indices.

The first chart is a snapshot of the market performance for the fourth quarter. The second chart shows the world markets and events over the last twelve (12) months. Your 2021 fourth 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
4Q 2021	STOCKS				BONDS	
	9.28%	3.14%	-1.31%	12.35%	0.01%	0.07%
Since Jan. 2001						
Average Quarterly Return	2.5%	1.7%	2.9%	2.7%	1.1%	1.1%
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%	-3.4%	-2.7%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4	2021 Q1	2015 Q2

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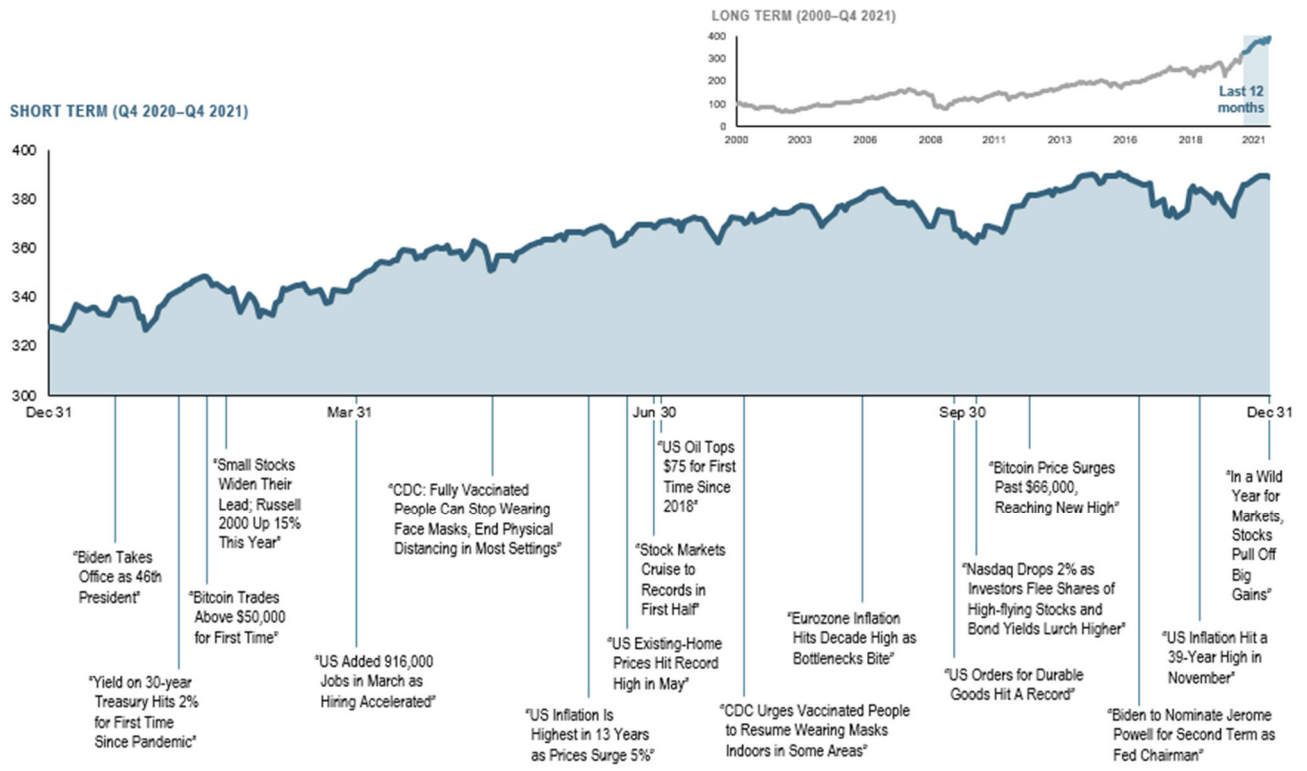
Past performance may not be indicative of future results. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns.

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.



All-Time-High Anxiety

Weston Wellington, DFA Vice President

Investors are often conflicted about record-high stock prices. They are pleased to see their existing equity holdings gain in value but apprehensive that higher prices somehow foreshadow a dramatic downturn in the future. And they may be reluctant to make new purchases since the traditional “buy low, sell high” mantra suggests committing funds to stocks at an all-time high is a surefire recipe for disappointment.

Financial journalists periodically stoke investors’ record-high anxiety by suggesting the laws of physics apply to financial markets—that what goes up must come down. “Stocks Head Back to Earth,” read a headline in the *Wall Street Journal* in 2012.¹ “Weird Science: Wall Street Repeals Law of Gravity,” *Barron’s* put it in 2017.² And a *Los Angeles Times* reporter had a similar take last year, noting that low interest rates have “helped stock and bond markets defy gravity.”³

Those who find such observations alarming will likely shy away from purchasing stocks at record highs. But shares are not heavy objects kept aloft through strenuous effort. They are perpetual claim tickets on companies’ earnings and dividends. Thousands of business managers go to work every day seeking projects that appear to offer profitable returns on capital while providing goods and services people desire. Although some new ideas and the firms behind them end in failure, history offers abundant evidence that investors around the world can be rewarded for the capital they provide.

Whether at a new high or a new low, today’s share price reflects investors’ collective judgment of what tomorrow’s earnings and dividends are likely to be—and those of all the tomorrows to come. And every day, stocks must be priced to deliver a positive expected return for the buyer. Otherwise, no trade would take place. It’s difficult to imagine a scenario where investors freely invest in stocks with the expectation of losing money.

Investors should treat record high prices with neither excitement nor alarm, but rather indifference. If stocks have a positive expected return, reaching record highs with some frequency is exactly the outcome we would expect. Using month-end data over the 94-year period ending in 2020, the S&P 500 Index produced a new high in ending wealth in more than 30% of those monthly observations. Moreover, purchasing shares at all-time records has, on average, generated similar returns over subsequent one-, three-, and five-year periods to those of a strategy that purchases stocks following a sharp decline, as **Exhibit 1** shows.

EXHIBIT 1

All Rise

Average annualized returns for S&P 500 Index after-market highs and declines

	1 year later	3 years later	5 years later
After new market high	13.9%	10.5%	9.9%
After 20% market decline	11.6%	9.9%	9.6%

Past performance is no guarantee of future results.

For illustrative purposes only. Index is not available for direct investment. Performance does not reflect the expenses associated with the management of an actual portfolio. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



Humans are conditioned to think that after the rise must come the fall, tempting us to fiddle with our portfolios. But the data suggest such signals only exist in our imagination and that our efforts to improve results will just as likely penalize them.

Investors should take comfort knowing that share prices are not fighting the forces of gravity when they move higher and have confidence that record highs only tell us the system is working just as we would expect—nothing more.

Happy New Year from the ClearLogic Team!