



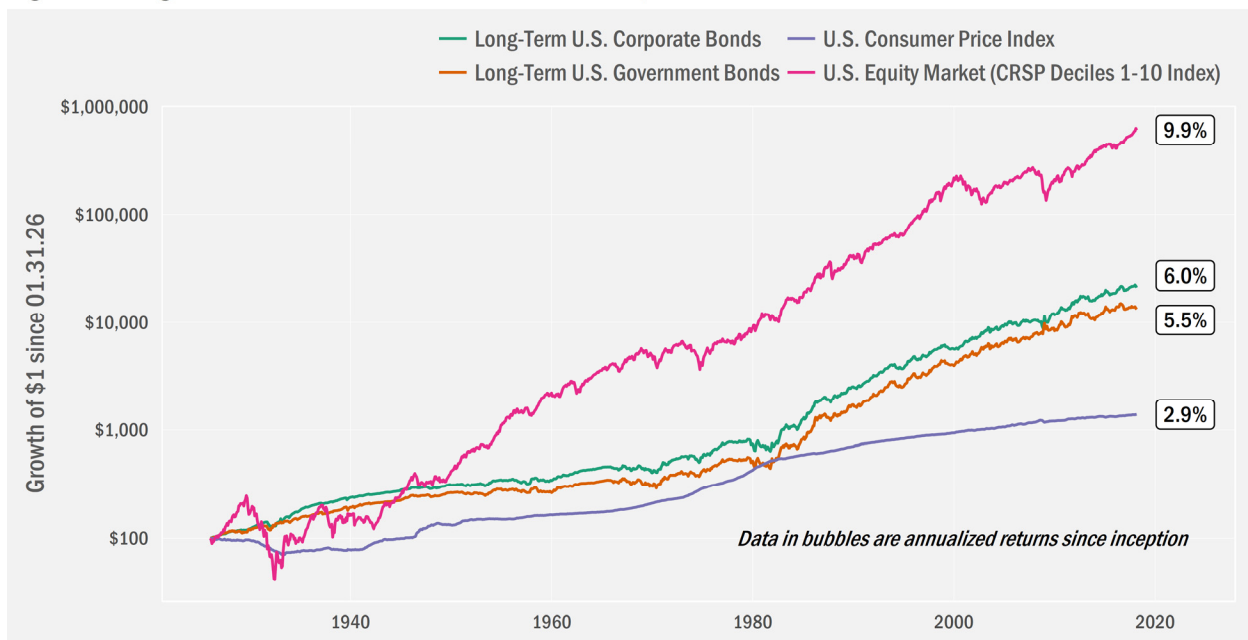
## RANGE OF OUTCOMES

Fundamental to our approach to investment management is the acknowledgement that with most any increase in expected return, we also must expect an increase in risk. It is the balance between the two that we seek to match with client financial situations and goals. To help find that appropriate balance, we often turn to historical market data, which provide ample evidence for this simple rule. While we can't be sure what the future will hold, we at least may seek to set proper expectations for what we might encounter. Such preparation we find goes a long way in supporting our endurance against whatever storms we may face and fostering our benefit from whatever good fortune markets may bring.

## Equity Return Dominates...

It's quite true that, over the long run, stocks have outperformed bonds. And handsomely so. In Figure 1, we show the very long-term annualized returns for U.S. stocks and bonds, along with inflation. Equities have generated nearly 4 percentage points more total return each year, on average, than long-term corporate bonds, with an even higher spread over long-term U.S. Treasuries. So why is it, then, one might choose to invest in bonds over what might look to be meaningfully better prospects from buying stocks?

**Figure 1: Long-Term Performance of Stocks and Bonds, versus Inflation**

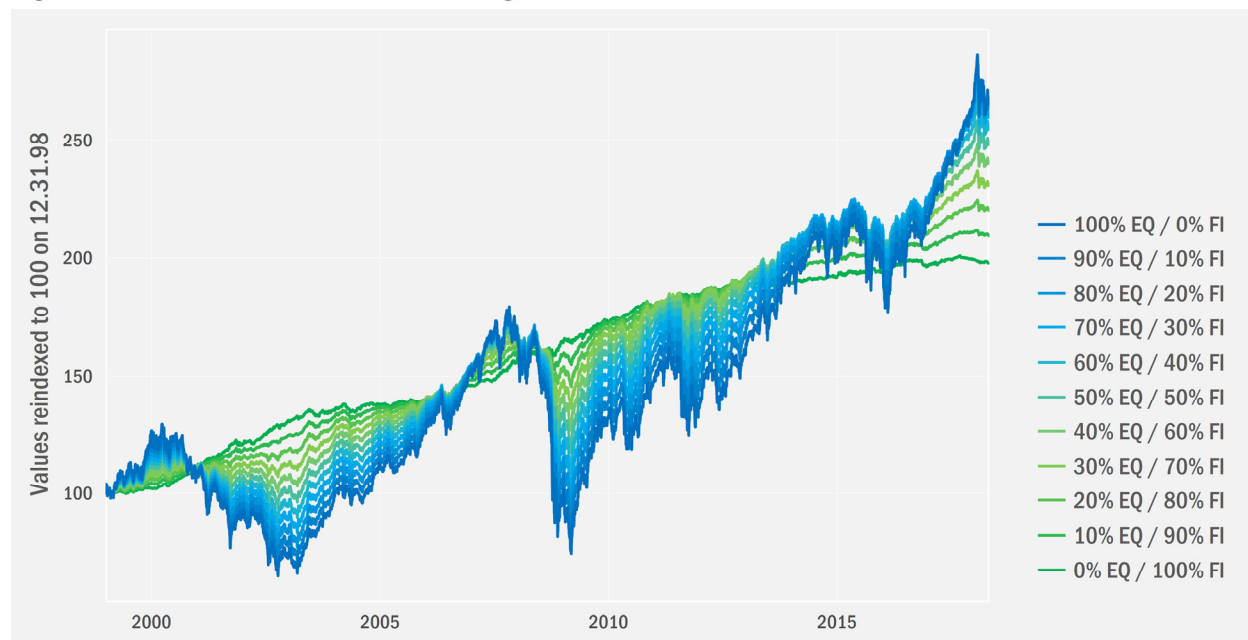


From 01.31.26 to 02.28.18. Logarithmic scale. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Dimensional Fund Advisors

## ...As Does Equity Risk

The quick answer goes back to our opening message: with increased expected return, we must expect increased risk. We can demonstrate this feature of investing in many ways through various charts, but among our favorites is Figure 2. In it, we show the hypothetical<sup>1</sup> historical returns for a range of allocations between stocks and bonds, including 100% of the former and 100% of the latter, with mixes at each 10% stop in between (e.g. the 60% EQ / 40% FI mix represents an investment of 60% of the portfolio in equities and 40% of the portfolio in fixed income, with the portfolio being “rebalanced” back to that target mix at the end of each calendar quarter). The colors start at blue, for 100% equity, and end at green, for 100% fixed income. One quickly sees that, while the all-stock portfolio ended on a higher note than all other allocations, it also saw the deepest troughs along the way.

**Figure 2: Cumulative Total Return of a Range of Asset Allocations**



From 12.31.98 through 04.30.18. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

<sup>1</sup> Some warnings regarding hypothetical returns: This backtested performance review involves simulation of a quantitative investment allocation by applying investment rules to a set of indexes during a specific market period and measuring the changes in value of the hypothetical investment based on the actual prices of the indexes during the period covered. Hypothetical allocations are based on a static allocation to indexes and allocations are rebalanced at each quarter end. The results are entirely hypothetical in nature and should not be relied upon as a source of probable or possible investment return or risk scenarios. No risk or return profile can be guaranteed. Backtested performance does not represent actual account performance and should not be interpreted as such. Backtested performance does not reflect the impact that material economic and market factors might have had on the investment decision-making process if Statera were managing actual assets. The period reviewed may not be indicative of the results one might have expected were a different period chosen for the study. Returns should not be considered indicative of the adviser's skill. Statera was not managing money during the entire time period illustrated. Client may experience a loss.

## Impossible to See, the Future Is

Why is that? The academically oriented answers to this question are myriad, but we think a reasonable summary is as follows. Most investing relates to some promise of future return of capital to the investor. Relative to bonds, the means, method and timing of the returns to that investment by the investee are more uncertain in the case of equities. With bonds, we know in advance how much we should expect to receive through coupon payments and from the return of capital when the bond matures. While there are factors that will determine the variability of the value of the bonds in the interim (e.g. changes in broader interest rates), barring default (not getting all or even any of our money back if the investee cannot pay), we have a meaningful measure of clarity as to the expected return on our fixed income investments from now through maturity. With equities, however, those estimations are much less certain. Returns from investments in equities in theory are derived from the earnings the companies generate. These earnings may be paid out to shareholders and/or reinvested back in to the business. However, present dividend payments, if they exist, may change. Earnings also tend to vary over time, often significantly. Since stocks do not “mature”, investor estimations of their fair values are dependent on evaluations that must take into consideration an indefinite future. They thus are similarly indefinite.

Of course, estimations for all securities—bonds and equities alike—may change over time. These changes impart interim volatility. For bonds, the defensibility of these estimations is stronger, given the relatively more certain nature of the expected cash flows to the investor. With stocks, one never gains such certainty<sup>2</sup>. That heightened uncertainty of present valuations and expected future returns remains a primary driver of the difference in volatility between the two asset classes.

## Why Ups and Downs Matter

Now, some readers will be quick to announce that stocks still have outperformed over the long term. We’d, of course, agree...for the most part. Depends greatly on one’s definition of “long term”. What defines that horizon is the point at which more certainty in regard to the value of investments is required. This desire for certainty changes over time. A 30-year time horizon may well be seen as long term. Even a 20-year horizon is well-enough off in the future that we may want to be wholly exposed to the market volatility we should expect along the way. After all, the U.S. equity market has yet to experience a negative 20-year total-return<sup>3</sup>. It’s happened over a few 15-year periods, however. And U.S. equities have seen a negative return on more than 5% of rolling 10-year periods (Figure 4). Thus, as they move through time, many investors may find that they want greater certainty in regard to the value of their investments, in particular when they begin to spend some of those hard-earned gains.

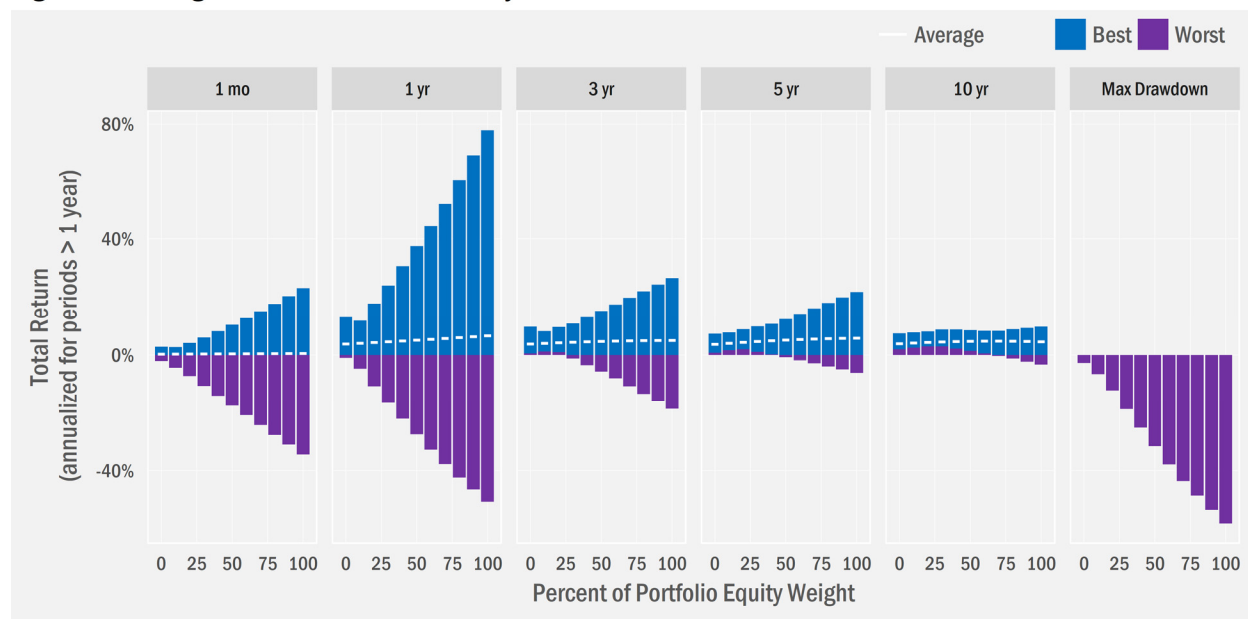
We’ve established that stocks are more volatile than bonds. Adding bonds to a stock portfolio, therefore tends to reduce the overall volatility of that portfolio, in effect tending to increase relative certainty regarding the portfolio’s current and future values. We too can see this effect in an examination of the historical data. In Figure 3, we have charted a range of rolling periodic returns for the same mixes of fixed income and equity

<sup>2</sup> Outside of known dividend payments and expected payouts from confirmed acquisitions of owned shares.

<sup>3</sup> We are using the long-term monthly total-return performance of the S&P 500 Index as the basis for this statement, with additional detail provided in Figure 4.

that we charted in Figure 2. We also show the maximum drawdown of each mix. Clear from the chart is that, with time, the range of outcomes narrows for all the mixes. In each period, though, greater levels of equity tend to increase the variability of outcomes, including heightened historical potential for losses in terms of magnitude (and regularity, though we don't specifically demonstrate this feature in Figure 3).

Figure 3: Trailing Allocation Performance by Period

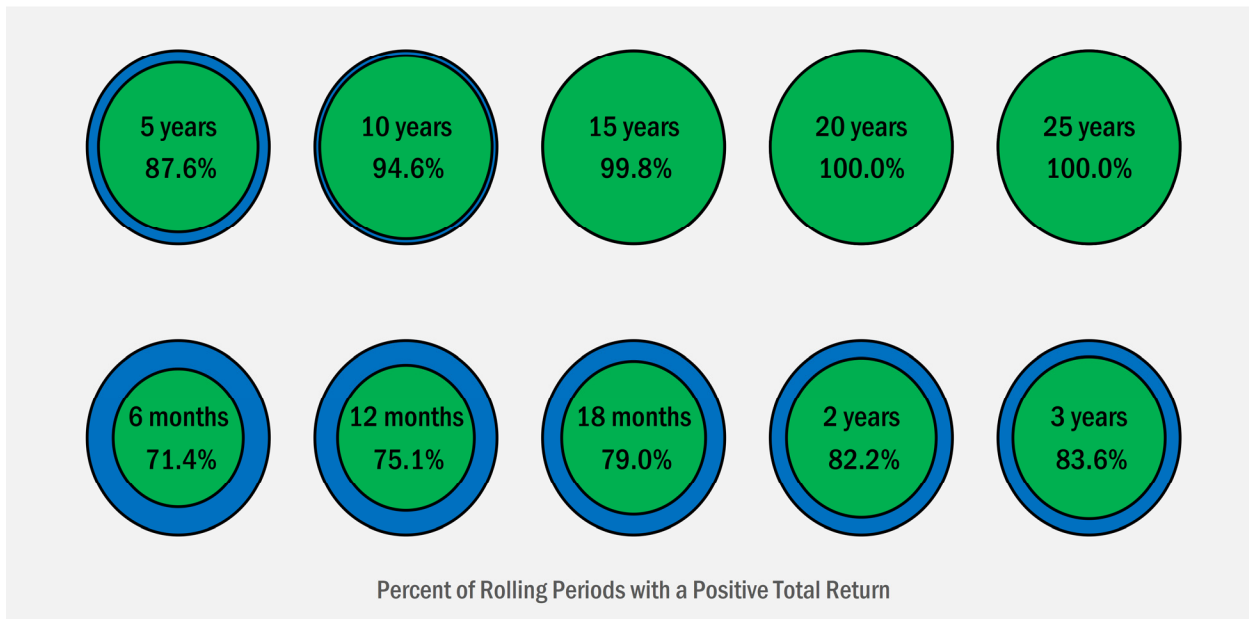


From 12.31.98 through 04.30.18. Rolling periods using daily data. Returns for periods greater than one year are annualized. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

## Tolerance is Individual

We understand that each client scenario is unique. As unique is each investor's financial and emotional wherewithal to endure market risk. People being people, gauging that appetite is an inexact science. Even so, advisors seek to provide a best-effort attempt to determine as best as possible what level of appetite for risk may be appropriate for each client. Our suite of investment models, in turn, serves as the toolbox for advisors to match an individual's market-risk tolerance to a potentially suitable investment solution.

Figure 4: Length of Holding Period and Risk of Loss



From 01.31.26 to 03.31.18. Underlying data are monthly total returns for the S&P 500 Index. Rolling calculations based on given trailing periods for each month end. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Standard & Poor's Index Services Group via Dimensional Fund Advisors

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The equity index used for this presentation is the MSCI ACWI Index, which captures large- and mid-cap representation across 23 Developed Markets countries and 23 Emerging Markets countries. The fixed income index used for this presentation is the Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index, which is a broad-based benchmark that includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years.

Benchmark performance results displayed herein represent hypothetical backtested performance of a static benchmark allocation. Benchmark performance data are entirely hypothetical in nature and should not be relied upon as a source of probable or possible investment return or risk scenarios. No risk or return profile can be guaranteed. This backtested performance review involves simulation of a quantitative investment allocation by applying investment rules to a hypothetical benchmark during a specific market period and measuring the changes in value of the hypothetical benchmark based on the actual prices of the indexes during the period covered. Investors should be aware of the following: 1) Hypothetical benchmark allocations are based on a static allocation to indexes and allocations are rebalanced at each quarter end. 2) Backtested performance does not represent actual account performance and should not be interpreted as such. 3) Backtested performance does not reflect the impact that material economic and market factors might have had on Advisor's decision-making process if Advisor were actually managing clients' assets. 4) The benchmark allocation that the backtested results are based on can be changed at any time in order to reflect better backtested results, and the allocation can continue to be tested and adjusted until the desired results are achieved. Hypothetical benchmark series are rebalanced at each quarter end.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Publication: 05.06.18

2018-SRCM-24