



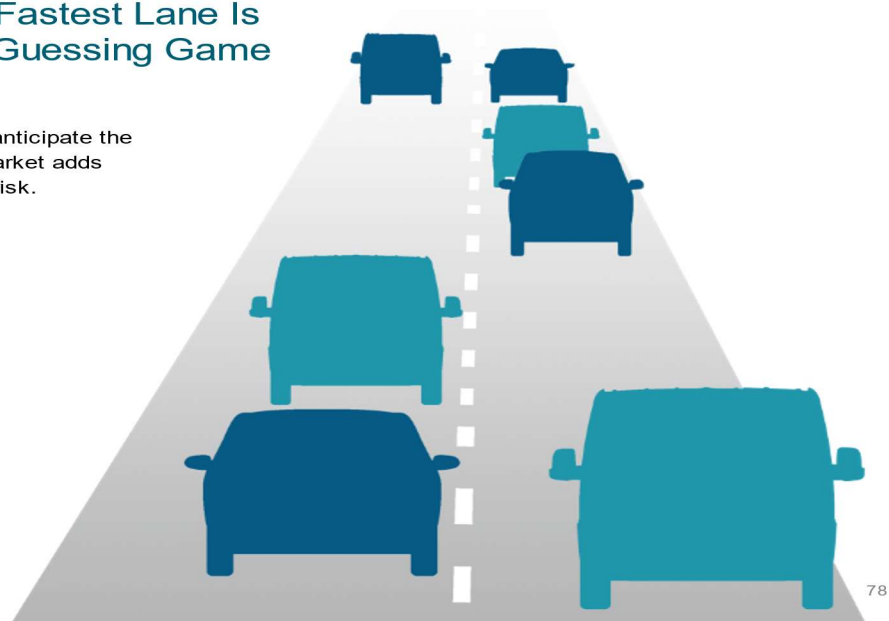
Staying the course – A few thoughts on Asset Allocation

This weekend my daughter and I headed out for an evening soccer game down in the DC metro area, it was Saturday night around 6pm. I found myself on Interstate 495 (Washington Beltway) approaching a slowdown and immediately looked to either side of me to see which lane I should move to next. I had somewhere to be and there had to be a decision I could make that would get me to my destination faster! After looking around and not seeing an opening my lane started moving again, then I had to slow. I stayed in my lane as it seemed like I was just going to be guessing if I moved to the right or left. While I drove, all lanes took their respective turns speeding up and slowing down, but we all really moved at the same pace at the end. Some just slightly quicker than others. About 15 minutes later traffic was flowing freely again. No doubt many of us have been in this situation before, sometimes guessing correctly, but often not.

This everyday situation can be related to investing and our asset allocation strategy. There is no doubt that some asset classes outperform others in any short sample size, one month, one year, etc. but knowing which ones and when is nearly impossible to predict with any consistency. It's important that we decide on a "route" or proper allocation spread across multiple asset classes and stay the course. If we can do this with discipline and focus we can achieve our investment goals and arrive at our desired destination without taking unnecessary risks like constantly changing investments – or driving lanes. Don't let anxiety about missing the next best thing or hot idea derail your long-term investing goals.

Picking the Fastest Lane Is a Stressful Guessing Game

Likewise, trying to anticipate the movement of the market adds anxiety and undue risk.



The chart below illustrates “The Randomness of Returns” over the period from 2006-2020. As you can see it is impossible to predict which asset class will be the “top performer” for any given year and it is extremely rare that a specific asset class is top of the chart or even near the top in a multiple consecutive year period. At Passive Capital Management (PCM) we take care to include all asset classes in our client’s portfolios in a broad-based allocation to assure that we are participating across the board and taking advantage of the returns the market gives us, no matter where they are. We are not going to predict the future, or ever attempt to. We are simply going to decide, based upon the goals and risk tolerance of each client, what the proper allocation looks like then implement it. Once the portfolio is in place our only “strategy” is to rebalance using discipline. We do not attempt to time the market or blindly choose which manager/product will produce results that we know will be produced by the broad capital markets over time.

The Randomness of Returns

Annual return (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Highest Return	36.0	39.8	8.8	79.0	28.1	9.4	20.1	38.8	32.0	5.8	31.7	37.8	2.1	31.5	20.0
	32.6	8.2	6.6	53.3	26.9	3.4	18.6	34.5	13.7	4.5	21.3	31.5	1.9	26.5	18.7
	29.6	7.9	4.7	51.4	24.9	2.3	18.1	32.5	13.5	1.5	17.3	28.6	1.5	25.9	18.4
	27.9	6.3	-28.9	37.2	24.5	2.1	17.9	32.4	4.9	1.4	12.0	21.8	-4.2	25.5	13.2
	23.5	5.9	-33.8	28.5	21.2	0.6	17.8	28.3	4.2	1.0	11.6	20.9	-4.4	23.5	4.6
	22.2	5.5	-36.8	27.2	19.2	0.4	17.5	26.0	1.9	0.9	8.4	14.6	-8.3	23.1	4.4
	19.8	3.6	-37.0	26.5	15.5	-4.2	17.1	21.7	1.2	0.2	8.0	13.7	-11.0	22.4	3.2
	18.4	2.5	-39.2	20.6	15.1	-5.5	16.3	1.2	0.2	-3.8	6.7	7.8	-12.9	18.9	3.1
	15.8	-0.2	-44.3	19.7	3.8	-10.6	16.0	0.6	-1.8	-4.4	4.7	3.8	-14.2	17.4	2.8
	4.3	-1.6	-45.6	2.3	3.7	-15.5	2.1	0.3	-5.0	-7.5	1.5	1.1	-14.5	4.2	1.8
	4.1	-9.8	-47.8	0.8	2.0	-16.4	0.9	-0.1	-5.4	-8.0	1.0	0.7	-17.8	3.9	-3.1
Lowest Return	3.8	-17.6	-53.2	0.2	0.8	-18.2	0.2	-2.3	-5.6	-14.6	0.8	0.6	-17.9	2.9	-11.2
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
US Large Cap	15.8	5.5	-37.0	26.5	15.1	2.1	16.0	32.4	13.7	1.4	12.0	21.8	-4.4	31.5	18.4
US Large Cap Value	22.2	-0.2	-36.8	19.7	15.5	0.4	17.5	32.5	13.5	-3.8	17.3	13.7	-8.3	26.5	2.8
US Small Cap	18.4	-1.6	-33.8	27.2	26.9	-4.2	16.3	38.8	4.9	-4.4	21.3	14.6	-11.0	25.5	20.0
US Small Cap Value	23.5	-9.8	-28.9	20.6	24.5	-5.5	18.1	34.5	4.2	-7.5	31.7	7.8	-12.9	22.4	4.6
US Real Estate	36.0	-17.6	-39.2	28.5	28.1	9.4	17.1	1.2	32.0	4.5	6.7	3.8	-4.2	23.1	-11.2
International Large Cap Value	29.6	7.9	-44.3	37.2	3.8	-10.6	17.8	21.7	-5.6	-8.0	8.0	20.9	-14.5	17.4	-3.1
International Small Cap	19.8	3.6	-47.8	51.4	24.9	-15.5	17.9	26.0	-5.0	5.8	4.7	31.5	-17.8	25.9	13.2
International Small Cap Value	27.9	2.5	-45.6	53.3	21.2	-16.4	20.1	28.3	-5.4	1.5	8.4	28.6	-17.9	23.5	3.1
Emerging Markets	32.6	39.8	-53.2	79.0	19.2	-18.2	18.6	-2.3	-1.8	-14.6	11.6	37.8	-14.2	18.9	18.7
One-Year US Fixed	4.3	5.9	4.7	0.8	0.8	0.6	0.2	0.3	0.2	0.2	0.8	0.6	1.9	2.9	1.8
Five-Year US Government Fixed	3.8	8.2	8.8	0.2	3.7	3.4	0.9	-0.1	1.2	0.9	1.0	0.7	1.5	4.2	4.4
Five-Year Global Fixed	4.1	6.3	6.6	2.3	2.0	2.3	2.1	0.6	1.9	1.0	1.5	1.1	2.1	3.9	3.2

In US dollars. US Large Cap is the S&P 500 Index, data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. US Large Cap Value is the Russell 1000 Value Index. US Small Cap is the Russell 2000 Index. US Small Cap Value is the Russell 2000 Value Index. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. US Real Estate is the Dow Jones US Select REIT Index, data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. International Large Cap Value is the MSCI World ex USA Large Cap Value Index (gross div.). International Small Cap is the MSCI World ex USA Small Cap Index (gross dividends). International Small Cap Value is the MSCI World ex USA Small Cap Value Index (gross div.). Emerging Markets is the MSCI Emerging Markets Index (gross dividends). MSCI data © MSCI 2021, all rights reserved. One-Year US Fixed is the ICB of A One-Year US Treasury Note Index. ICE Data Indices, LLC. Five-Year US Government Fixed is the Bloomberg Barclays Treasury Bond Index 1 Year, Bloomberg Barclays data provided by Bloomberg. Five-Year Global Fixed is FTSE World Government Bond Index 5 Years (hedged to USD). FTSE fixed income indices © 2021 FTSE Fixed Income LLC. All rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

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Dan Strine, CPRC®
Investment Advisor
September 2021

Passive Capital Management, LLC

2328 West Joppa Road, Suite 120 Lutherville, MD 21093, 443-275-2703

205 South Salina Street, Suite 403, Syracuse, NY 13202, 315-478-3130

www.passivecapital.com

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