

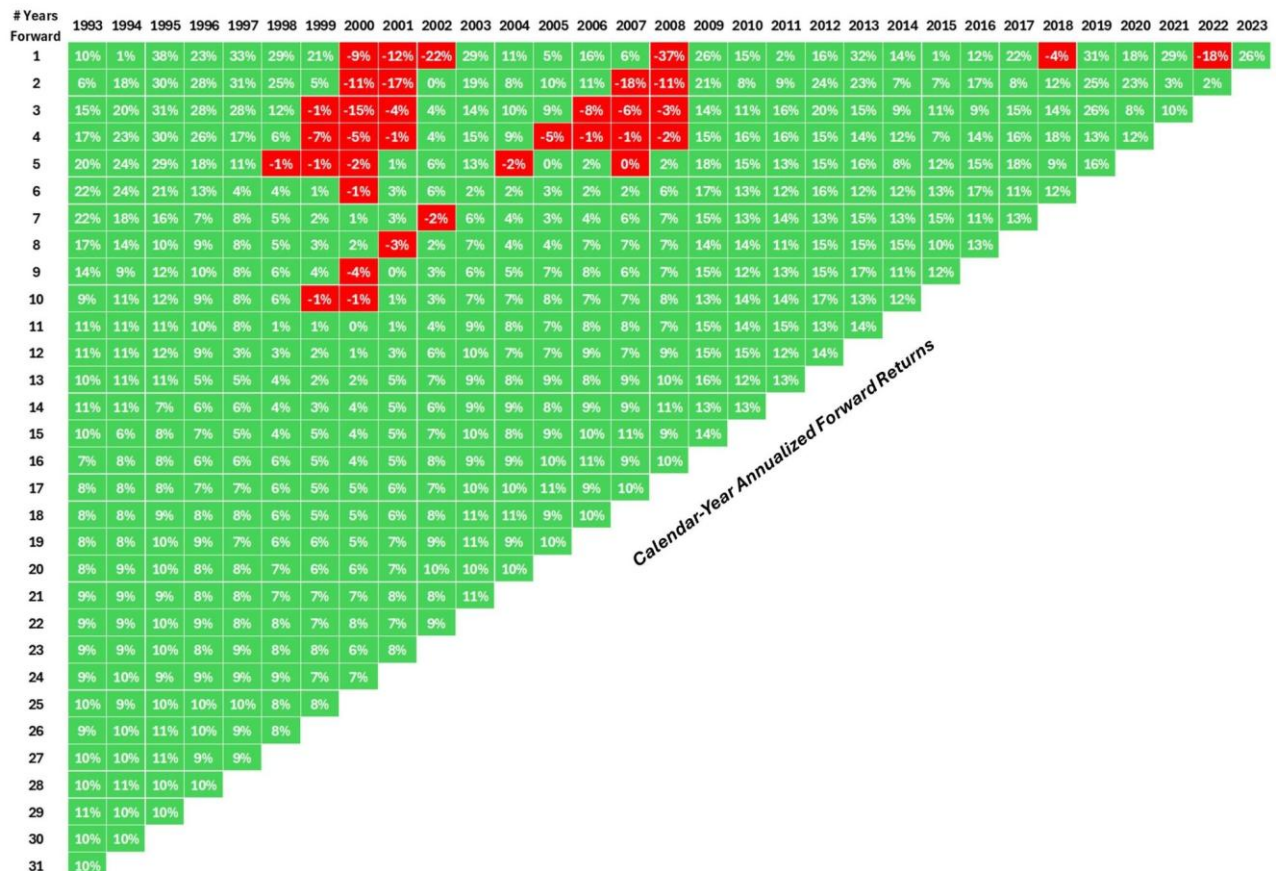


Investment Math & A New Addition

Investment Math

We all understand math, but investment math is a bit more confusing and seemingly illogical. If we start with \$100 and we earn 20%, then we lose 20% we should end up back where we started right? Surprisingly, the answer is no. Our \$100 grew to \$120 but when we lose 20% it is from a larger number, so we lose \$24, meaning we have less than what we started with, and our portfolio value stands at only \$96. If we think about it another way, how much do we need to earn to make our original investment back if we start off with a 50% loss? 100% return! \$100 goes down to \$50 and now we need to earn another \$50 to just get back to even. This is why diversification and loss mitigation are so important; appreciation is great but if we give too much of it back because of large drawdowns it can severely impact long-term returns.

This chart brilliantly illustrates our point, credit to Ben Carlson. If you started investing in 1997 and your investment returned 33%, 29%, then 21% you would feel like you were on top of the world, but because of losses suffered in '00, '01, '02 then '08 your 12-year annualized return was only 3%, 15 years out you were at 5%, at 20 years and beyond you would be happy again with annualized returns hovering around the 10% mark. The question is though, would you still be invested to achieve those returns, or would you have sold out at some point along the way? Depending on what valuation metric you look at, the S&P 500 has been cheaper anywhere from 94% to 98.9% of the time over the past 30 years. By limiting some exposure to this asset class, we can improve long-term returns even if we miss out on some of the upside in good years because we are limiting losses in other years.



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A New Addition

On February 6th Barrister welcomed a new associate to the firm, Farrah Barbara, born at 8:14 pm weighing in at 6 pounds and 5 ounces. Mother and daughter are healthy, and brother Trey is looking forward to being a big brother.



Best,

A handwritten signature in black ink, appearing to be 'C. W. A.', is written in a cursive style.

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