**CLIENT QUESTION OF THE MONTH: What are some investing lessons learned from 2020?**

- 2020 will be a year we will never forget. From a global pandemic and civil unrest, to an economic downfall that we continue to battle through today, it has been a challenging year that has impacted millions of individuals around the world. For investors, as we reflect on the past year, it's critical we revisit some lessons learned to better ourselves moving forward. While it's unlikely we'll ever experience a year like 2020 again, many of the principles outlined below are timeless, and can serve as foundational reminders that are applicable every year.

- **Having an investment philosophy you can stick with is paramount**
  - As Dimensional Executive Chairman and Founder David Booth says, "A philosophy serves as a compass to guide you through turbulent times. When you've got a compass, it doesn't take drastic directional changes to find your way. Small adjustments are all you need to stay on course."
  - While there is no silver bullet, understanding how markets work and trusting market prices are good starting points. By adhering to a well-thought out investment plan, ideally agreed upon in advance of periods of volatility, investors may be better able to remain calm during periods of short-term uncertainty.
- **Create an investment plan that aligns with your risk tolerance**
  - As investors, our risk appetite often changes based on the market environment we are in. In early March when we experienced the fastest bear market in history, some would have slept better at night knowing they had allocated more to bonds or cash. In April, when the market had its best monthly return since 1987[1], those same investors would have felt better knowing they were allocated more to stocks. Point being, you want to have a plan in place that gives you peace of mind regardless of the market conditions.
  - Over time, capital markets have rewarded investors who have taken a long-term perspective and remained disciplined in the face of short-term noise. By focusing on the aspects within their control (like having an appropriate asset allocation, diversification, and managing expenses, turnover, and taxes) and sticking to a long-term plan that is in line with their risk tolerance, investors may be better able to look past short-term noise and focus on investing in a systematic way that will help meet long-term goals.
- **Don't try and time the market**
  - The 2020 market downturn offers an example of how the cycle of fear and greed can drive an investor's reactive decisions. Back in March, there was widespread agreement that COVID-19 would have a negative impact on the economy, but to what extent? Who would've guessed we would've experienced the fastest bear market in history in which it took just 16 trading days for the S&P 500 to close down 20% from a peak[2] only to be followed by the best 50-day rally in history?[3] I would be hard pressed to find someone who had that in their market timing forecast.
  - Trying to time the market based on an article from this morning's newspaper or a segment from financial television? It's likely that information is already reflected in prices by the time an investor can react to it. For investors trying to time the market the odds are stacked against you, the good news is, you don't need to be able to time markets to have a positive investment experience.
- **Know what's in your portfolio**
  - Investors want reliable portfolios with robust risk controls, unfortunately, it often takes a market decline for many to take a closer look at what is actually in their portfolio. In times of market stress, investors rely on the fixed income portion of their allocation to serve as the ballast of their portfolio, helping to provide downside protection. Many investors learned

the hard way earlier this year that what they thought were safe fixed income products, were actually stretching for yield, leading to fixed income portfolios that did not hold up during the market downturn.
    - Dimensional has a transparent approach to managing fixed income in which we are able to pursue higher returns while staying within the guardrails of the portfolio guidelines. Our market-informed credit assessment provides a more complete picture of an issuer's credit quality in real time, helping to ensure that our portfolios behave in a way that is commensurate with the intended credit risk exposure.
- **Having a flexible investment process is even more crucial in times of high stress**
    - For many, the heightened volatility we experienced this past year had adversely affected trading processes as traders were forced to demand immediacy when going to the market to trade. Dimensional's investment and trading process is designed to function robustly and account for high volatility, changes in available liquidity, and sharp market movements. While markets were stressed and returns were somewhat unusual, the efficacy of our approach remained true and performed as expected. The approach delivered risk management in a robust fashion, delivered outperformance across many different asset classes, provided daily liquidity to investors in our portfolios throughout the period, and added value to investors.
    - To illustrate what this looks like in practice, in March, we were able to buy corporate bonds for 50.7bps cheaper than the trade prior and 21.5 bps cheaper than the trade after. When going to the market to sell bonds and provide liquidity to allow clients to rebalance into equities, we were able to sell corporate bonds for 104bps higher than the trade prior and 116bps higher for the trade after.
- **Stay disciplined through market highs and lows**
    - Financial downturns are unpleasant for all market participants. When faced with short-term noise, it is easy to lose sight of the potential long-term benefits of staying invested. While no one has a crystal ball, adopting a long-term perspective can help change how investors view market volatility.
- **Look beyond the headlines**
    - Dimensional Vice President Weston Wellington reminded investors a few months ago in a publication, read the newspaper to be an informed citizen, not for advice on how to navigate the financial markets. Daily market news and commentary can challenge your investment discipline. Some messages stir anxiety about the future, while others tempt you to chase the latest investment fad. When headlines unsettle you, consider the source and maintain a long-term perspective – growing wealth has no shortcuts.
- **Focus on what you can control**
    - To have a better investment experience, people should focus on the things they can control. It starts with an advisor creating an investment plan based on market principles, informed by financial science, and tailored to a client's specific needs and goals. Along the way, an advisor can help clients focus on actions that add investment value, such as managing expenses and portfolio turnover while maintaining broad diversification. Equally important, an advisor can provide knowledge and encouragement to help investors stay disciplined through various market conditions.

1 Caitlin McCabe, Anna Hirtenstein and Chong Koh Ping, "Stocks drop but hold onto big gains," Wall Street Journal, April 30 2020

[2] Beth Kindig, "Algorithms sped up selling, leading to the fastest bear market in stock market history", Market Watch, March 26, 2020

[3] Pippa Stevens, "This is the greatest 50-day rally in the history of the S&P 500", CNBC, June 4, 2020