KARPUS INVESTMENT MANAGEMENT

COMMENTARY

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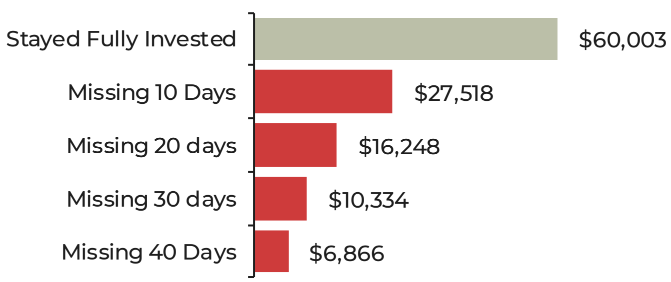
Investing in Today's Market: Keep an Eye on Your Destination

Anyone with investable assets is keenly aware of the challenges facing today's market environment. They are uncertain where stocks will go and they are unsure if bonds can help them get to their intended destination. They are also concerned about inflation, supply chain constraints, and continued stimulus and/or accommodative policies around much of the globe. With these concerns at the forefront of investors' minds, the logical questions are: how and where should I invest my money?

To get to the answers, we could anticipate that because rates are low, they are poised to rise – causing a decline in bond prices. In stocks, many argue that valuations are stretched and have little room for improvement or what room they do have could be at risk. Acting on these types of thoughts in isolation though could be dangerous to an investor's long-term financial well-being.

Indeed, numerous studies have been published showing the costs of market timing. The concept is simple. As our analysis below shows, if you were to try and time the markets and missed the market's best days, it can prove costly.

$10,000 Invested in the S&P 500
11/30/1996 - 11/30/2021



Bloomberg Finance, L.P., S&P 500 Index, for 25 year period from 11/30/1996-11/30/2021. Past performance does not guarantee future results. Indexes are unmanaged and not available for direct investment. Index returns do not include fees or sales charges. The chart is for illustrative purposes only and not indicative of any investment.

The bottom line is that market extremes are difficult, if not impossible, to predict. This is why investing must be approached as a process rather than an event.

Looking at stocks and bonds, each asset class serves a specific function within an investor's portfolio. Stocks offer the potential for growth and capital appreciation (and dividends where applicable). With the trade off generally being higher volatility over shorter time horizons, over longer time frames volatility tends to get smoothed out, helping well-diversified investors minimize stock-specific pitfalls. With bonds, and especially bonds in a balanced portfolio, it is essential to be mindful of fixed income investments' ability to: generate predicable income, provide significant diversification benefits to equities, and help preserve capital during periods of economic weakness.

With these simple concepts in mind, investors with varying time horizons and risk tolerance must focus on three key concepts: (1) extensively diversifying their portfolio; (2) thoughtfully setting an asset allocation based on their tolerance for risk; and (3) sticking to their plan.

To be absolutely clear, we are not advocating in this document that investors cannot change their tolerance for risk over time. What we are trying to say is that by investing with a purpose and plan, we believe that investors can better achieve their goals than they could by trying to speculate what can happen in the markets.

In a sentence, investors stay the course and rebalance their portfolios, while speculators try to guess the movements in the markets. Interestingly, the questions at the beginning of this document are the same questions that plague investors in both good times and bad. Not surprisingly then, the answer we would advocate is to approach your decisions in all environments with logic and continuity. If a particular asset or asset class feels overvalued and feels overly risky compared to how you thought it fit in your overall strategy, perhaps you should reassess that asset or asset class' weighting to realign with something more in tune with your expectations.

Very few (if any) individuals or investment managers will consistently be able to predict what the markets will do, where interest rates will go, or when stimulus driven growth will become self-sustaining. What a successful investor can count on is that the best recipe for achieving their goals is to thoughtfully establish a plan and only make changes based on changes in personal circumstances – not on attempts to time the markets. In this regard, today's markets are no different than others.

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