DON'T LET THE MARKET KNOCK YOU OUT

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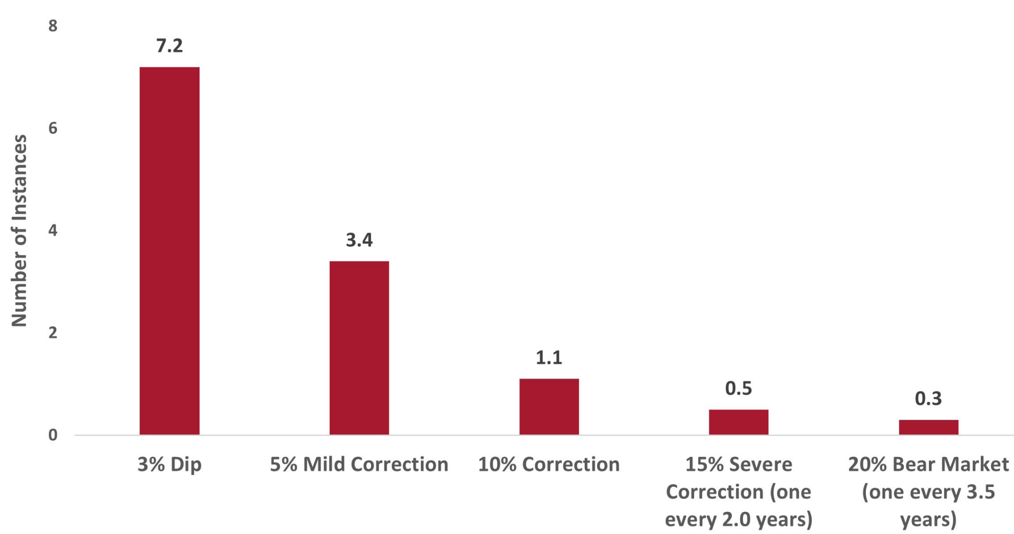
Being an investor sometimes feels like being in a boxing match. The stock market's seemingly endless volatility of "up big one day and down big the next" is like "jabs" to the head and "gut punches" to the stomach. The volatility can be mentally exhausting. And, after a while, it could make one want to give up and pull out entirely, just like Roberto Duran did when he evidently uttered the now-famous capitulatory phrase "no más" after being pounded for eight rounds by Sugar Ray Leonard's speedy right-left jab combination in the 1980 Welterweight Championship.

However, we believe long-term investors should never cry "no más."

Several Wall Street studies have concluded periodic market corrections, regardless of the rationale and magnitude, are normal and, in many instances, healthy over the course of the business cycle. One recent study from Carson Research and Ned Davis Research showed that since 1928 the stock market suffers a 3.0% decline at least seven times annually. The study further states investors should expect more-meaningful declines of 5.0% between three and four times per year and 10.0% about once per year. Finally, market participants should anticipate a Bear market (i.e., a decline of at least 20.0%) about once every three to four years.

Stock market price declines of varied magnitudes are common.



Source: Carson Research, Ned Davis Research

Just take 2023's volatility as a reference. The S&P 500 closed out 2023 up roughly 24.0%, well above the market's approximate 10.0% average annual return over the past several decades and the strongest price gain since 2021. However, the robust performance did not come without several brain-rattling head punches, which coincided with last spring's Silicon Valley Bank bankruptcy (-7.0% peak-to-trough decline in the S&P 500) and the fall's worries over higher interest rates and geopolitical turmoil (-10.0%). If investors had cried no más during either of those periods, the funds removed from the market would have missed the opportunity to recover over the ensuing months.

Although painful, we do not recommend long-term investors "throw in the towel" during temporary stock market corrections but rather take a "standing 8 count" to settle their nerves.

Expect more volatility in 2024. Although the timing is always elusive, we see several potential "left hooks." For one, the S&P 500 is trading at 19.5x P/E (price-to-earnings) ratio, above its long-term 17.5x average. The premium suggests, in part, there is less "cushion" to absorb when "bad news" is dealt. Second, several investors suggest the economy and labor market have yet to feel the full brunt of the Federal Reserve's interest rate hikes over the past several periods. Then, there is the continued geopolitical conflicts in Russia/Ukraine and the Middle East that, if sustained, could impact market pricing for commodities and maritime services that, in turn, could re-ignite inflation concerns.

Truxton Trust reminds investors it is impossible to dodge market volatility, as it is common to all equity investments. However, we employ several measures to limit and control its impact. We maintain our focus on diversified portfolios, which are comprised of companies with durable businesses and long-term track records of stable earnings growth and trade at fair valuations.