

ALL WEATHER FINANCIAL STRATEGIES RIDING THE UPS AND DOWNS WITH CONFIDENCE

An all-weather investment strategy protects your capital in down markets by declining less than the market, but also participates in up markets to provide a satisfactory long-term return since protecting capital during down markets is only half the battle.

We believe such a strategy can be very useful for investors and is worth considering in the current environment. In our experience, lower account drawdowns help clients avoid the critical mistake of emotional selling in down markets. That is exactly the wrong time since lower stock prices increase potential returns going forward.

Morningstar published an article on January 12, 2023, entitled “All-Weather Stock Funds Do Exist” where they reviewed how many all-weather funds actually exist. Morningstar found 953 diversified U. S. Equity Funds from 2002-2022 which had the requisite history to include the last 3 bear markets and were at least 85% invested in stocks. They found that only 112 of the 953 declined less than the market in all three bear market years they reviewed (2002, 2008 and 2022), while also producing annual returns higher than the 8.17% return for the Morningstar U. S. Market Index from 2002-2022.

ALL WEATHER LOOKALIKE

While we are not a mutual fund since we manage separate accounts (which can be more tax efficient), our Core Equity Composite accomplished the attributes of an All-Weather Strategy which you can see on our Global Investment Performance Standards (GIPS®) report available on our website. GIPS is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. We are compliant with the GIPS Standards, and our Core Equity Composite net returns are verified by an independent third party since its inception on January 1, 1992 through December 31, 2022, and outperformed the Morningstar U.S. Market

Index from 2002-2022 as well as the S&P 500.

The Morningstar U.S. Market Index measures the performance of large-, mid-, and small-cap stocks in the U. S. representing the top 97% of the investable universe by market capitalization. Since we focus more on large cap companies better represented by the S&P 500, we compare our declines during the bear market years reviewed to the decline of the S&P 500 and were able to better protect client capital by declining less than the S&P 500 in each of those years while outperforming both the Morningstar U. S. Market Index and the S&P 500 from 2002-2022.

The article further screened Morningstar’s database for “Truly” All-Weather Stock Funds which they define as funds down no more than 70% of market declines during the bear markets referenced while outperforming the Morningstar U. S. Market Index return from 2002-2022. That reduced the number of funds achieving true all-weather status to just 6 of the original 953. While we didn’t meet the criteria of a downturn of no more than 70% versus the S&P 500 decline for each year referenced (2002, 2008 and 2022), our average decline for all three of those years was well below the decline of the S&P 500 Index.

PLAYING DEFENSE

We think our defensive bias helped achieve these results. Rather than trying to predict the economy or market, we assume something bad will eventually happen and focus on companies with resilient cash flows that maintain strong balance sheets. This typically helps our portfolio companies be buyers of attractively priced assets during times of stress and not sellers, which can be disastrous for returns.

EVENT: Discussing Your Investment Strategy

GUEST SPEAKER:
John Slayton,
Managing Director of
First Carolina Wealth

WHEN: November 7th 2024

WHERE: Cape Fear Country Club



EDWARD D. NOWELL

President, South Atlantic Capital

Mr. Nowell, with 30+ years in finance, founded South Atlantic Capital after roles at Bankers Trust (NY), where he arranged bank financing for Kohlberg, Kravis, Roberts & Co. buyouts. Since founding South Atlantic Capital in 1991, he has been the sole portfolio manager of our Core Equity Composite, which has outperformed the S&P 500 since its inception on January 1, 1992.

South Atlantic Capital
Management Group

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