The Cash Conundrum

Cash may feel safe...but long-term cash drag creates a steep cost in lost opportunities.

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Cash might come with hidden costs

We've been seeing a surge in cash investments over the past year. For some investors, cash may play a strategic role in their portfolio. But for others, it may be an emotional reaction to alarming headlines. And the "cash drag" may be undercutting their long-term financial plans.

Cash may feel safe because it comes with the confidence that you won't lose money in the market. But that confidence also comes with a big cost — the loss of long-term growth potential.

If you're currently holding excess cash, it might be a good time to discuss it with your financial professional and make sure your portfolio is aligned with your long-term goals.

Here are some topics to consider:

The cost of lost opportunities 1

Three reasons to invest with confidence 2

Three strategies to help ease into the market 3

1

THE COST OF LOST OPPORTUNITIES:

Investors historically move to cash at the wrong times

Investors everywhere are torn between the temptation of "safe" cash and the uncertain market environment.

Cash can play an important role in any long-term plan, but much like we've seen in the past, investors have a tendency to deviate from that plan during uncertain times — increasing cash positions shortly before markets turn to the upside.

Investors are holding record levels of cash

When fear is driving cash assets to record highs, it may be a good time to invest.

Source: Money market assets: Morningstar. Data as of 6/30/23.
S&P 500 Overlay: FactSet, Standard & Poor's. Data as of 7/31/23.

1

THE COST OF LOST OPPORTUNITIES:

Cash is likely costing you... well...cash

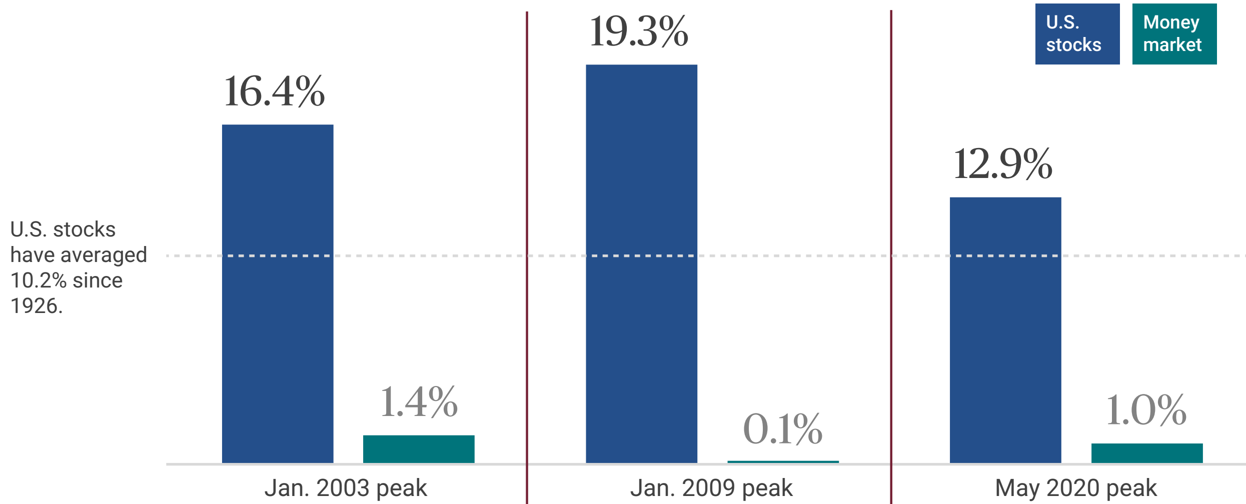
Cash may be king when it comes to short-term liquidity needs. But over time, the more cash you hold in your portfolio, the more it's likely to create a drag on your results.

Successful long-term investors rely on time in the market, not timing the market. Getting in and out at the "right" time is difficult, even for professionals. By the time many investors respond to the alarming headlines, the market has often hit its bottom and the recovery is well underway.

History can give us insight into the opportunity we lose when we hold too much cash during uncertain times. Following the last three times cash assets peaked, U.S. stocks delivered above average performance over the next three years, and greatly outpaced cash.

Stocks have roared back after cash has peaked

Average annual 3-year performance following cash peaks



	Growth of $100,000 (ending assets)		
U.S. stocks	$157,709	$169,793	$143,907
Money market	$104,259	$100,300	$103,060
Difference	**$53,450**	**$69,493**	**$40,847**

Source: Morningstar, "BlackRock Student of the Markets," Lincoln Financial Group. 3-year returns calculated from end of peak month listed. US Stocks = S&P 500 TR; Money Market = Morningstar taxable money market category average returns. **Past performance does not guarantee or predict future performance.**

1

THE COST OF LOST OPPORTUNITIES:

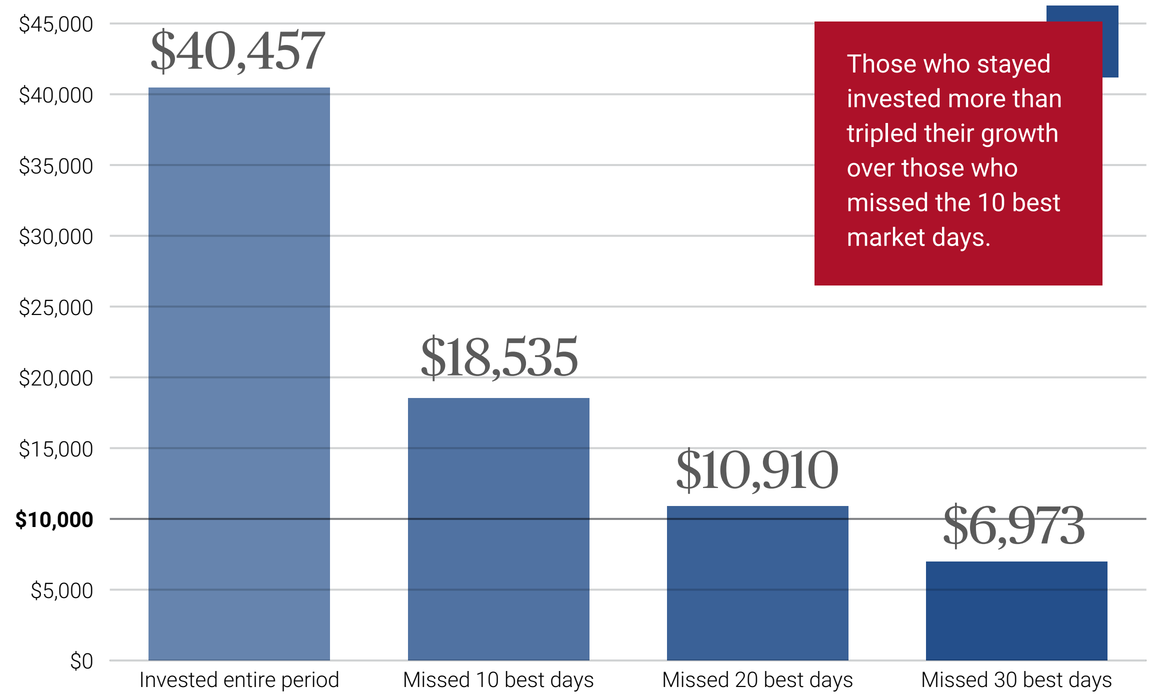
Missing even a handful of days has a big impact

We don't know when the market's best days will pop up – so investors sidelined in cash at the wrong time may miss out.

Staying the course in stocks from 2000–2022 would have produced a cumulative return of more than 304%. But if an investor had missed only the best 30 days, they would have experienced a 30% loss.

The importance of staying invested

Growth of a $10,000 investment between January 1, 2000, and December 31, 2022.



	Invested entire period	Missed 10 best days	Missed 20 best days	Missed 30 best days
Cumulative return	304.6%	85.4%	9.1%	-30.3%
Annualized return	6.3%	2.7%	0.4%	-1.6%

You cannot invest directly in an index. All indices are unmanaged and do not include fees or expenses. Returns based on S&P 500 Price Return Index, which does not include dividends.

Source: FactSet, Standard and Poor's, Lincoln Financial Investments Corp. Data from January 1, 2000, through December 31, 2022. **Past performance is not indicative of future returns.**

2

THREE REASONS TO INVEST WITH CONFIDENCE:

Stocks generally outperform over the long term

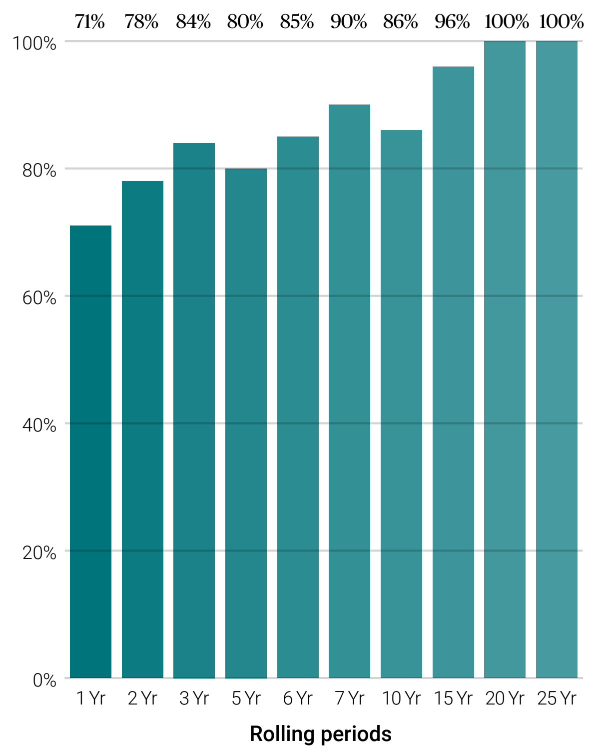
Since none of us have a crystal ball, we need to focus on making investment decisions with the highest likelihood of success, aligned with our personal goals.

It's rare for cash to outperform stocks over any holding period. But the longer investors stay in cash, the worse their odds are of coming out on top.

Over one-year periods, cash underperformed stocks by 9% on average, but over five-year periods, that number rises to 58% — or $58,000 in lost growth if you have invested $100,000. Cash might feel safe — but one of the real risks when it comes to stocks is not owning them.

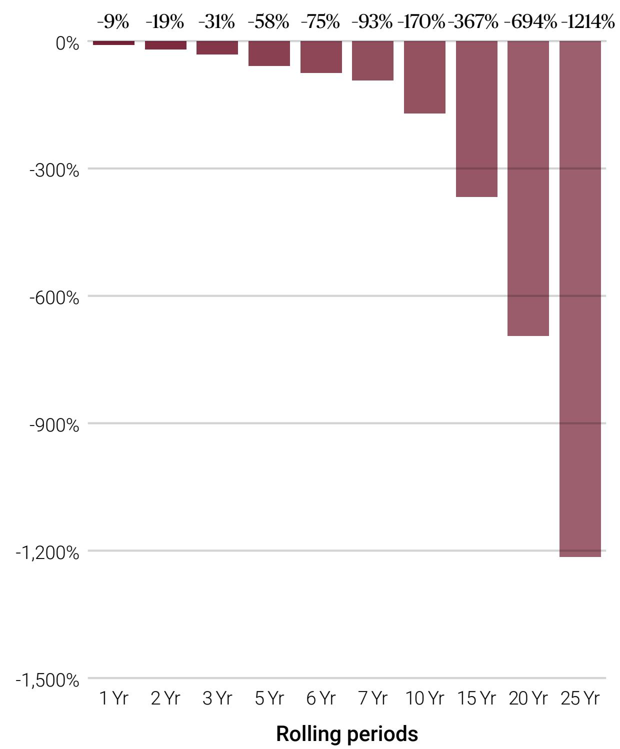
Cash often underperforms...

Times cash underperformed the S&P 500 Index (%)
(Total returns, 1940–2022)



...by a lot, on average

Average underperformance: Cash vs. S&P 500 Index
(Total returns, 1940–2022)



Source: NYU.edu, Lincoln Financial Group. Rolling periods with a 1-year step. Cash proxy = average 3-month Treasury Bill rate in each calendar year.

Past performance does not guarantee or predict future performance.

You cannot invest directly in an index.

2

THREE REASONS TO INVEST WITH CONFIDENCE:

The view is better when you look beyond the headlines

It always feels like there are compelling reasons not to invest. This is just a sampling of worrying headlines over the past two decades.

Bad news might make short-term waves, but over time, those waves tend to smooth out and not disturb the long-term trajectory of markets. There is value in tuning out the headlines.

Despite the headlines...it's always a good time to invest

Year	Worrisome event	Cumulative returns[1]
2000	Tech wreck; bubble bursts	372.9%
2001	September 11	420.3%
2002	Dot-com bubble: market down –49%	490.5%
2003	War on Terror – U.S. invades Iraq	658.0%
2004	Boxing Day Tsunami kills 225,000+ in Southeast Asia	489.0%
2005	Hurricane Katrina	431.2%
2006	Not a bad year, but Pluto demoted from planet status	406.4%
2007	Subprime meltdown	337.3%
2008	Global Financial Crisis; bank failures	314.5%
2009	GFC: market down –56%; depths of despair	557.9%
2010	Flash crash; BP oil spill; QE1 ends	420.3%
2011	S&P downgrades U.S. debt; 50% write-down of Greek debt	352.2%

Year	Worrisome event	Cumulative returns[1]
2012	Second Greek bailout; existential threat to Euro	342.8%
2013	Taper Tantrum	281.7%
2014	Ebola epidemic; Russia annexes Crimea	188.3%
2015	Global deflation scare; China FX devaluation	153.6%
2016	Brexit vote; U.S. election	150.2%
2017	Fed rate hikes; North Korea tensions	123.4%
2018	Trade war; February inflation scare	83.4%
2019	Trade war, impeachment inquiry, global growth slowdown	91.8%
2020	Covid-19 pandemic, U.S. presidential election	45.9%
2021	Omicron variant, China regulatory crackdown	23.2%
2022	Russia invasion of Ukraine, inflation hits 40-year high	(4.2%)
2023	Fed rate hikes; regional bank failures, recession concerns	16.9% YTD

[1] Cumulative total returns for S&P 500 Index are calculated from December 31 of the year prior to June 30, 2023. Sourced from Morningstar.

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2

THREE REASONS TO INVEST WITH CONFIDENCE:

The economy is not the market

In recent years, many investors have remained on the sidelines as the media continued to warn of a looming recession. But even when a recession ultimately comes, keep in mind that the market and the economy are two very different things.

Since markets tend to be forward-looking, what's expected in the economy is usually already accounted for in market prices. This makes trying to time investment decisions with external factors like the economy very difficult.

As this chart shows, even if an investor could have perfectly timed every recession over the last 8+ decades, they would have been no better off than a patient investor who simply stayed the course. In fact, if you wait for the "all clear" on the recession front, you may miss out on the strongest part of the rebound.

Markets lead the economy, so buy and hold is usually best

Recession timing scenarios (1940 – 2022)	S&P 500® Price Return Index (1940 – 2022 annualized)
Sold at start of each recession, bought at end of each recession	7.1%
Sold 3 months before each recession, bought 3 months after each recession	6.6%
Sold 1 year before each recession, bought 1 year after each recession	5.4%
Bought Jan. 1, 1940, held through Dec. 31, 2022	**7.1%**

Source: Bloomberg, Federal Reserve Bank of St. Louis, Lincoln Financial Group. S&P 500 Price Return Index from 1940 – 2022. Does not include dividends.

[1] Capital Group, Federal Reserve Board, Haver Analytics, National Bureau of Economic Research (NBER), RIMES, Standard and Poor's. Data reflects the average of completed cycles in the U.S. from 1950 – 2021.

[2] Morningstar, NBER. Cumulative return measured from max drawdown date of each of the last five recessions until the release of the business cycle dating committee announcement retrospectively determining the trough in U.S. economic activity.

3

THREE STRATEGIES TO EASE INTO THE MARKET:

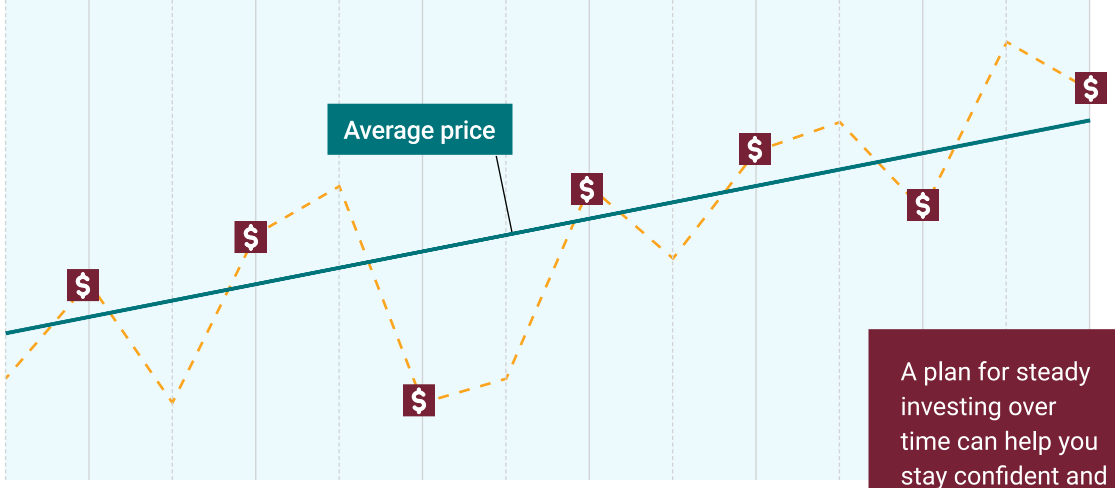
Focus on purposeful, steady investing over time

When investors are sitting on large cash holdings, a gradual approach back into the market can help boost confidence. One time-tested method is known as dollar cost averaging. Think of it as steadily wading into the ocean — rather than immediately plunging into the deep, or, conversely, just staying on the shore.

Instead of investing a large lump sum all at once, you can make a series of smaller investments on a regular basis. This slow and steady approach helps ease the anxiety that often comes with large investment decisions, and can provide the confidence needed to put excess cash to work for the long term.

Dollar Cost Averaging

Investing the same amount at regular intervals



A plan for steady investing over time can help you stay confident and focused

3

THREE STRATEGIES TO EASE INTO THE MARKET:

Diversification can help you stay focused on time in the market–not timing the market

Consider a diversified portfolio that includes a mix of stocks and bonds.

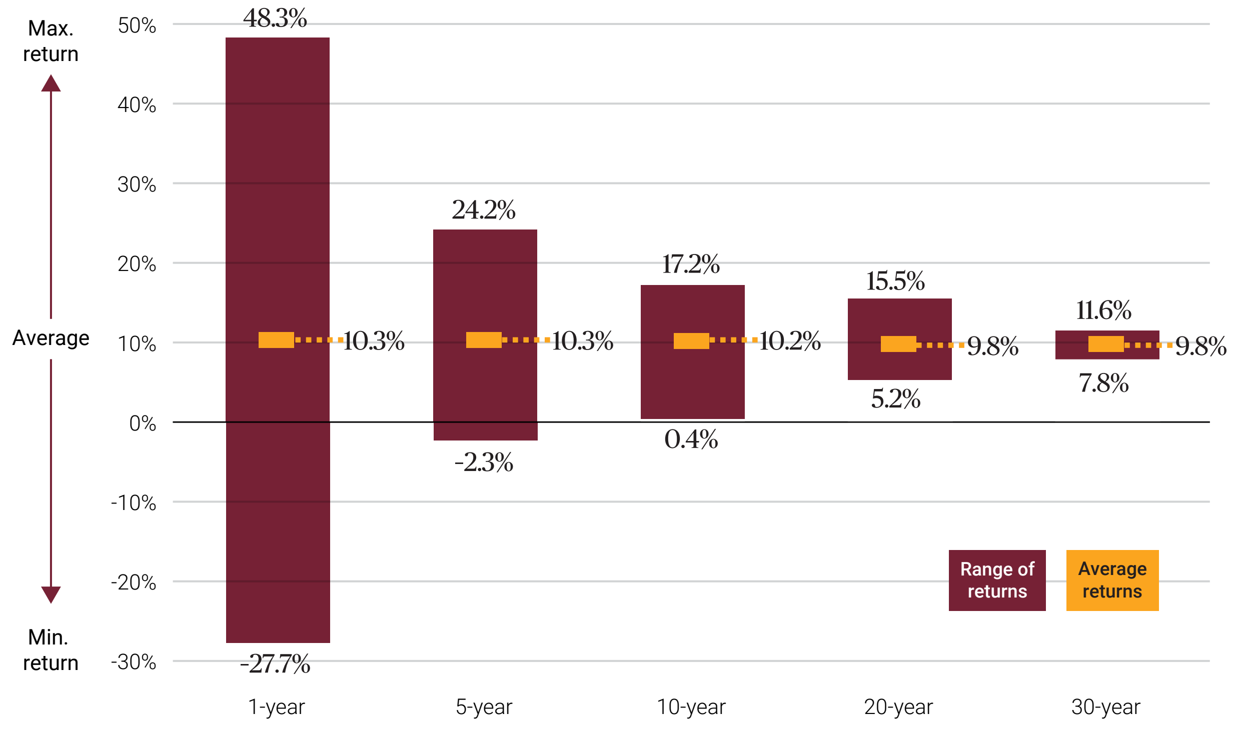
Because bonds are generally considered less risky than stocks, as part of a diversified portfolio, they can help smooth out the investment experience over time by acting as a buffer during market downturns.

The chart on the right shows the benefit of a balanced investment strategy. While markets can be volatile over the short term, a portfolio of 60% U.S. stocks and 40% bonds has rewarded patient investors—generating a positive return 100% of the time over 10+ year periods.

On top of bonds, your financial professional may recommend other strategies to help manage portfolio risk, such as additional asset classes and a portfolio rebalancing strategy.

A long-term, balanced approach means less volatility

The range of outcomes with rolling returns for a 60/40 portfolio, 1976–2022



Source: Morningstar. 60/40 portfolio = 60% S&P 500 TR and 40% Bloomberg U.S. Aggregate Bond Index TR.

Rolling returns are annualized on a 5-, 10-, 15-, 20-, 25- and 30-year basis. Using monthly S&P 500 Index Total Return and Bloomberg U.S. Aggregate Bond Index data starting in January of 1976, summary return statistics were calculated based on the total number of rolling return periods existing for each given period of time with a one-month step. For each rolling return period, a range of returns (maximum and minimum) as well as the average return has been calculated to provide a historical reference for how equities and balanced portfolios have performed. Returns >1yr annualized. **Past performance is not indicative of future results.**

3

THREE STRATEGIES TO EASE INTO THE MARKET:

Consider adding protection to your portfolio

Warren Buffett, famed for his investing abilities, has one cardinal rule when investing: Never lose money. And one of the best ways to avoid losing money in the long run is to stay confident, and not turn paper losses into real losses by exiting the market during periods of market volatility.

While all investments involve some degree of risk, there are a variety of strategies available that can help protect your overall portfolio.

Whether your goal is to:

- Protect against market losses
- Secure a source of retirement income
- Ensure your loved ones are taken care of
- Plan for future healthcare needs
- Or a combination of these,

Your financial professional can recommend portfolio protection strategies that are suitable for your long-term goals.

Confidence can help you stay positioned for growth

It can be challenging to look beyond uncertainty in the market. But a sound plan, developed with your financial professional, can help you keep a long-term perspective.

Meet with your financial professional to review your plan and assess your asset allocation.

Discuss if any of your goals have changed and may need adjustments.

Determine if any part of your portfolio can benefit from additional protection.

Consider what life changes are ahead and what solutions may be needed at different stages.

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