BANK OF AMERICA

CHIEF INVESTMENT OFFICE

Educational Series

Staying the Course: A Disciplined Financial Strategy Roadmap

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Chief Investment Office

In extraordinary times, market volatility can tend to rise to extremes and create extended periods of concern for investors. We have experienced many of these episodes just in the past two decades, let alone over the course of history. With such an interconnected and, at times, unknown world, how can you plan for the period of pent-up demand in the economy to the other side and new frontier that includes evolving fiscal and monetary policies? In this report, we discuss a number of important elements to review when assessing your portfolio and the potential adjustments to consider.

Investing would be so much easier if you could plan for your financial future against a backdrop of market and geopolitical stability. Unfortunately, the reality is far different. Industries or geographical regions that appear to be safe havens may be disrupted by a health crisis, political unrest or game-changing innovation.

In our view, the key principles that help ensure that your portfolio will remain properly aligned to your long-term financial strategy during periods of market volatility include:

- Staying disciplined with a goals-based plan
- Maintaining a diversified portfolio and adequate liquidity
- Considering a defined portfolio rebalancing strategy

Exhibit 1: Market Volatility and Times of Crisis.

Sources: Bloomberg; Chief Investment Office as of March 31, 2022. Past performance is no guarantee of future results.

Volatility, as measured by the Chicago Board Options Exchange (CBOE) Volatility Index (VIX), surged to its highest level on record at the start of the pandemic amid the sharp risk-off shock (Exhibit 1).

During periods of uncertainty, it is important to have a goals-based plan and stay invested.

Investors who work with their advisor to develop a goals-based plan generally exercise a more disciplined approach to investing and rebalancing. By doing so, the realization of goals such as early retirement, funding a dependent's college cost or home purchase, can become more likely, even as markets experience episodic turbulence.

It is time in the market, not timing the market. Indiscriminately pulling back from the market due to market volatility could negatively affect your investment and financial goals. Market timing is not a successful strategy, in our view, given that two difficult decisions must be made: when to get out and when to get back in. As shown in Exhibit 2, in the 2010s, investors who had missed the 10 best days of returns would have realized only a 95% gain vs. 190% for the full decade. Extending out investment time horizons has also historically helped to reduce average equity return volatility (Exhibit 3).

Adhering to a disciplined investment process that provides an optimal mix of diversified assets helps to raise the probability of achieving an investor's long term financial goals.

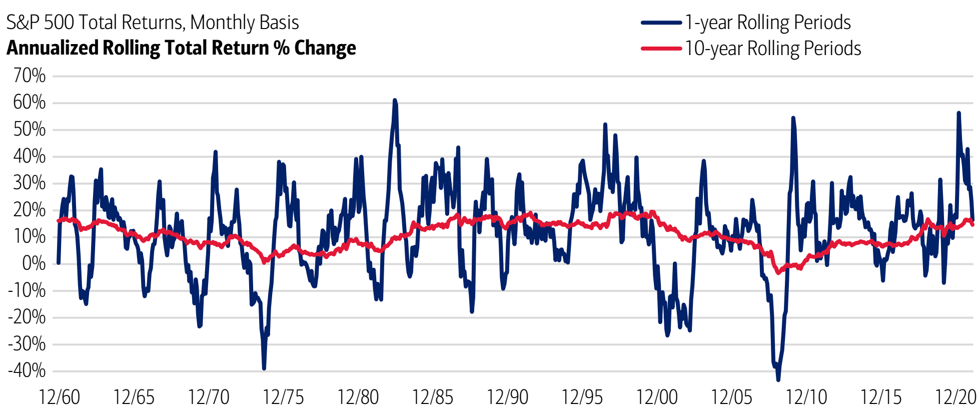
Exhibit 2: Missing the Ten Best Days in Any Decade Has Negatively Affected Equity Returns.

Decade	S&P 500 Price Return	Excluding Best 10 Days per Decade
1930	-42%	-79%
1940	35%	-14%
1950	257%	167%
1960	54%	14%
1970	17%	-20%
1980	227%	108%
1990	316%	186%
2000	-24%	-62%
2010	190%	95%
2020*	44%	-20%
Since 1930	21,021%	52%

*Performance for the decade of 2020 is through March 31, 2022. Sources: Chief Investment Office; BofA Global Research. Data as of March 31, 2022. Past performance is no guarantee of future results. **Please refer to index definitions and important disclosures at the end of this report.** Performance during periods of exceptional market conditions should not be expected to be repeated in a normal market environment. Performance results are extremely short term and do not provide an adequate basis for evaluating performance potential over varying market conditions or economic cycles. Investment results may have been different had another time period been chosen for this example.

The coronavirus crisis demonstrated the challenge with trying to time the market. Generally, the S&P 500's best days follow its worst. 2020 was no exception. The S&P 500 fell 9.5% on March 12, 2020, but quickly rebounded the next day, gaining 9.3%.

Exhibit 3: Lengthening Time Horizons Have Helped To Reduce Equity Return Volatility.



Source: FactSet. Data as of February 28, 2022. Past performance is no guarantee of future results. **Please refer to index definitions and important disclosures at the end of this report.**

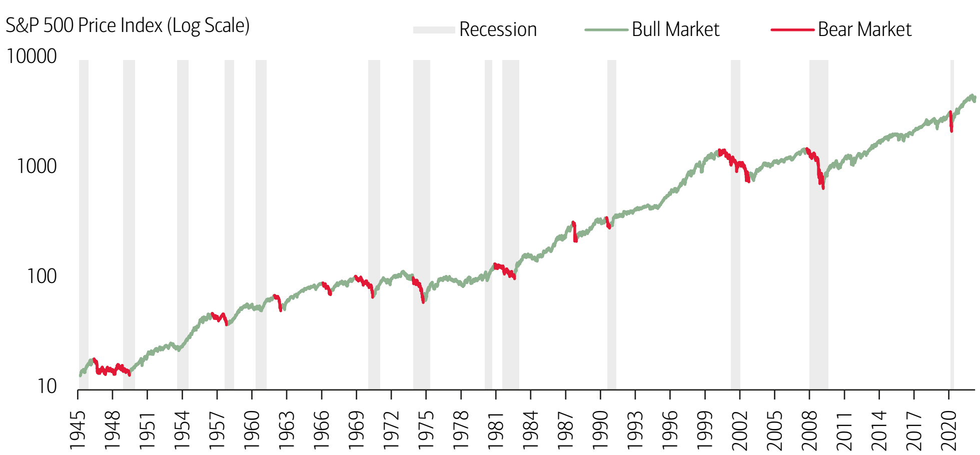
To further emphasize this point, Exhibits 4 and 5 show that, while exogenous shocks can have major negative effects on equities, markets have historically rebounded once uncertainty abates and fundamentals start to improve.

Exhibit 4: Recent Historical Dislocations and Rebounds In The Equity Market.

Market Event	S&P 500 Drawdown	EPS* Contraction	Length of Drawdown (Days)	Length to Recovery (Days)
1987: Black Monday	-21%	14%	49	321
1998: Russian Default and LTCM Collapse	-19%	0%	45	84
2000-2002: Dot-Com Bubble	-49%	-10%	929	1694
2001: September 11 Attacks	-12%	0%	11	20
2008-2009: Global Financial Crisis	-57%	-32%	517	1480
2011-2012: Euro Zone Debt Crisis	-19%	5%	157	144
2015-2016 Oil Slick	-14%	-3%	266	151
2018 Recession Scare	-20%	6%	95	120
2020 Coronavirus	-34%	0%	33	148

Note: Drawdowns for the S&P 500 for Black Monday and 9/11 are based on the day before the event. *Earnings Per Share (EPS) Contraction captures the fluctuations in earnings growth from peak to trough. The length of recovery is illustrated as the number of days it takes the broad equity market (S&P 500) to reach or surpass its previous peak from the trough level. The subsequent 12-month return depicts the performance since the equity market troughed. Sources: Chief Investment Office; Bloomberg as of March 31, 2022. Past performance is no guarantee of future results. **Please refer to index definitions and important disclosures at the end of this report.**

Exhibit 5: Time Can Be Healing for Equity Markets.



Note: Recession periods are defined by the National Bureau of Economic Research, and start at the peak month and end at the trough month of a business cycle. Bear markets describe conditions when the S&P 500 fell by 20% or more from a recent high. Bull markets describe the upward trending condition following a bear market contraction. Source: Bloomberg. Data as of March 31, 2022. Past performance is no guarantee of future results. **Please refer to index definitions and important disclosures at the end of this report.**

Asset allocation and diversification can help weather periods of uncertainty

The importance of asset allocation and diversification. It has been widely recognized that asset allocation is at the heart of a successful investment strategy.[1] Asset allocation entails diversifying across asset classes to help achieve your financial goals in a manner consistent with your time horizon, risk tolerance and liquidity needs. An effective asset allocation "smoothes the ride" through diversification, which helps reduce the overall impact of a drastic increase or decline in the value of one asset class (Exhibit 6).

Asset allocation and diversification do not ensure a profit or protect against loss in declining markets.

[1] Ibbotson, R. G., 2010, "The Importance of Asset Allocation." Financial Analysts Journal 66(2):18-20

Exhibit 6: Performance Fluctuations Across Asset Classes.

										2013 – 2022*	
2013	2014	2015	2016	2017	2018	2019	2020	2021	2022*	Annualized Return	Annualized Volatility
Private Equity 43.46%	US LC Equity 13.25%	Real Estate 11.09%	US SC Equity 21.31%	EM Equity 37.28%	Real Estate 11.12%	US LC Equity 31.75%	US LC Equity 22.37%	US LC Equity 27.90%	Tangible Assets 25.55%	US LC Equity 16.14%	Cash 0.44%
US SC Equity 38.82%	US MC Equity 13.22%	US LC Equity 2.36%	High Yield FI 14.27%	Int. Dev. Equity 24.21%	International FI 3.17%	US MC Equity 30.54%	Private Equity 20.96%	Tangible Assets 27.11%	Real Estate 3.21%	US MC Equity 13.50%	International FI 3.43%
US MC Equity 34.76%	Real Estate 13.05%	International FI 1.35%	US MC Equity 13.80%	US LC Equity 22.96%	Cash 1.87%	US SC Equity 25.52%	US SC Equity 19.96%	US MC Equity 22.58%	Cash 0.04%	US SC Equity 11.57%	Real Estate 3.54%
US LC Equity 32.41%	International FI 9.07%	Invest. Grade FI 0.55%	Tangible Assets 11.77%	US MC Equity 18.52%	Invest. Grade FI 0.01%	Int. Dev. Equity 22.49%	EM Equity 18.31%	Real Estate 22.05%	Hedge Funds -0.78%	Real Estate 11.20%	Invest. Grade FI 3.92%
Int. Dev. Equity 21.02%	Invest. Grade FI 5.97%	Cash 0.05%	US LC Equity 11.33%	US SC Equity 14.65%	US LC Equity -3.08%	Private Equity 22.43%	US MC Equity 17.10%	Private Equity 19.34%	International FI -4.44%	Private Equity 9.59%	Hedge Funds 7.51%
Real Estate 12.50%	US SC Equity 4.89%	Hedge Funds -1.12%	EM Equity 11.19%	Private Equity 13.17%	High Yield FI -4.06%	EM Equity 18.42%	Hedge Funds 11.83%	US SC Equity 14.82%	Int. Dev. Equity -4.81%	Int. Dev. Equity 6.17%	High Yield FI 8.87%
Hedge Funds 9.13%	Hedge Funds 2.98%	US MC Equity -2.44%	Private Equity 9.87%	High Yield FI 10.43%	Hedge Funds -4.75%	High Yield FI 12.56%	Int. Dev. Equity 7.59%	Int. Dev. Equity 12.62%	US LC Equity -4.94%	Hedge Funds 5.47%	US LC Equity 13.95%
High Yield FI 7.33%	Private Equity 1.71%	High Yield FI -2.72%	Real Estate 9.73%	Real Estate 8.90%	US MC Equity -9.06%	Hedge Funds 10.45%	Invest. Grade FI 7.51%	Hedge Funds 10.16%	US MC Equity -5.68%	High Yield FI 4.10%	Int. Dev. Equity 14.68%
International FI 1.33%	Cash 0.03%	Int. Dev. Equity -3.04%	Hedge Funds 5.44%	Hedge Funds 8.59%	US SC Equity -11.01%	Invest. Grade FI 8.72%	High Yield FI 7.03%	High Yield FI 0.99%	High Yield FI -5.69%	EM Equity 3.24%	US MC Equity 17.38%
Cash 0.07%	High Yield FI 0.01%	US SC Equity -4.41%	International FI 5.20%	Invest. Grade FI 3.54%	Tangible Assets -11.25%	Tangible Assets 7.69%	Real Estate 6.91%	Cash 0.05%	Invest. Grade FI -5.93%	International FI 2.98%	EM Equity 17.52%
Invest. Grade FI -2.02%	EM Equity -2.19%	Private Equity -9.42%	Int. Dev. Equity 2.75%	International FI 2.51%	Private Equity -13.08%	International FI 7.57%	International FI 4.20%	Invest. Grade FI -1.54%	EM Equity -6.97%	Invest. Grade FI 2.00%	Tangible Assets 17.86%
EM Equity -2.60%	Int. Dev. Equity -4.32%	EM Equity -14.92%	Invest. Grade FI 2.65%	Tangible Assets 1.70%	Int. Dev. Equity -14.09%	Real Estate 5.66%	Cash 0.67%	International FI -1.67%	US SC Equity -7.53%	Cash 0.67%	US SC Equity 21.45%
Tangible Assets -9.52%	Tangible Assets -17.01%	Tangible Assets -24.66%	Cash 0.33%	Cash 0.86%	EM Equity -14.57%	Cash 2.28%	Tangible Assets -3.12%	EM Equity -2.54%	Private Equity -7.60%	Tangible Assets -0.55%	Private Equity 24.75%

* 2022 reflects data as of March 31, 2022. Sources: Morningstar Direct. Income and dividends are included in all returns figures. Factset. Bloomberg. National Council of Real Estate Investment Fiduciaries (NCREIF). Data as of 3/31/2022. *Real Estate Benchmark is a blend of 50% NCREIF NPI & 50% NAREIT Composite for the year 2020 (subject to revision). Results shown are based on an index and are illustrative; they assume reinvestment of income and no transaction costs or taxes. Indexes are unmanaged. Direct investment cannot be made in an index. **Past performance is no guarantee of future results. Please refer to index definitions and important disclosures at the end of this report.**

While painful, market pullbacks are normal. Diversification is a powerful tool in environments of uncertainty.

Don't overlook liquidity. A thoughtful approach for managing liquidity is essential to funding unexpected needs while limiting the need to sell assets at unfavorable prices and adverse tax implications. During periods of crisis, investors may find themselves in a predicament needing to liquidate assets for purposes of funding a gap—this may tilt correlations unfavorably higher and assets that are not supposed to move in lockstep. In periods of crisis, having enough cash to meet essential living expenses and avoid liquidation of invested assets is critical. We have found that having about 18 to 36 months of near-term cash flow needs in a highly liquid short-duration fixed income portfolio may help overcome short-term market shocks while helping risk assets to recover.

Monitor your portfolio and maintain a disciplined plan

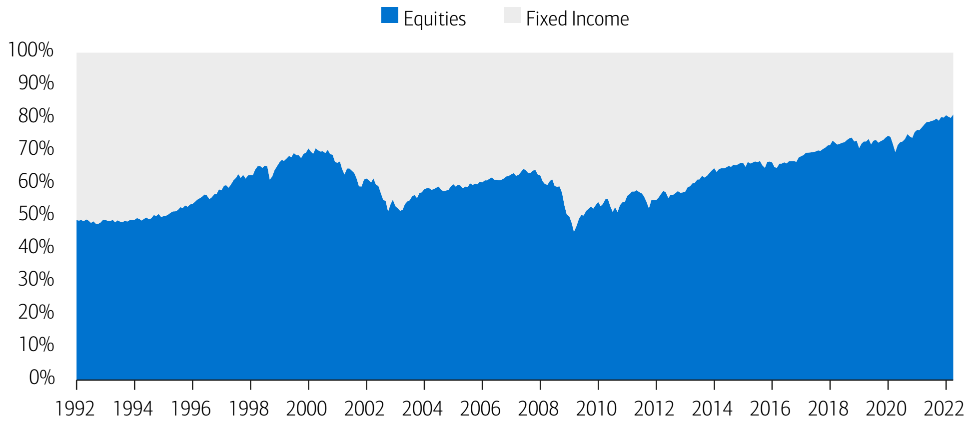
Rebalancing can make a difference. Portfolio rebalancing is a critical but often overlooked part of the investment process to facilitate de-risking, and re-risking. Rebalancing helps portfolios maintain an appropriate risk tolerance, helps lock in profits and facilitates asset purchases at potentially lower relative valuations. At the same time, rebalancing may entail certain costs, such as transaction fees, realizing capital gains and potential performance drag.

Rebalancing is a critical part of our investment process.

Portfolio "drift" can be another reason to consider rebalancing (Exhibit 7). Over time, portfolio weights often diverge or "drift" from their initial targets due to differences in asset class performance, resulting in a materially different risk profile. For some, staying the course may mean taking no action at all and just simply allowing the portfolio risk-premiums to operate unconstrained through the diversified asset allocation. Sometimes "drift" may work to your advantage and rebalancing or attempting to time a rebalance may prove challenging and in some cases may lock in prices before they've had an opportunity to fully appreciate (Exhibit 8).

Asset allocation and diversification do not ensure a profit or protect against loss in declining markets.

Exhibit 7: Portfolio "Drift" and Asset Weightings (1992 to 2020).



Sources: Chief Investment Office, Bloomberg as of March 31, 2022. Note: Equities: S&P 500 Total Return Index; Fixed Income: Bloomberg Barclays U.S. Aggregate Total Return Bond Index.

Exhibit 8: Effects of Portfolio Rebalancing (1992 to 2020)

	Rebalanced Portfolio	Non-Rebalanced Portfolio
Volatility	7.4%	9.3%
Max Drawdown	29.9%	31.1%

Source: Chief Investment Office. Data as of 2021. Note: Equities and Fixed Income represented by the S&P 500 Total Return Index and Barclays U.S. Aggregate Total Return Bond Index, respectively. Calculations are based on monthly returns, are gross of fees and does not take into account tax implications. The rebalanced portfolio represents a portfolio rebalanced on an annual basis to an equal-weighted portfolio (50% Equities, 50% Fixed Income). "Volatility" is measured as the annualized standard deviation and "Max Drawdown" is the maximum peak-to-trough percentage decline in value experienced during the given period. Past performance is no guarantee of future results. **Please refer to index definitions and important disclosures at the end of this report.**

Another technique worth exploring is dollar-cost averaging (DCA). DCA is a technique through which a fixed dollar amount is deployed on a regular basis, thus accumulating assets without trying to time a market entry point. Many investors may not even realize that they are often already employing such a technique through regular contributions to their 401(k) or perhaps a 529 plan. The thinking is that purchasing at pre-specified intervals can smooth out the entry price of that particular asset. DCA can help investors avoid investing too much when the market is high and too little when the market is low.

While DCA may not produce a higher return over a long time horizon when compared to lump sum investing, it may help to reduce investor stress during periods of market turmoil and fear, which may help prevent rash decisions to sell investments at a suboptimal time.[2]

[2] Smith, G. and Artigue H. M., "Another Look at Dollar Cost Averaging." Journal of Investing, Summer 2018.

Exhibit 9: CIO Implementation Options

	Key Considerations
Periodic Rebalancing	• This involves checking on your portfolio at a preset time each year or quarter and making any necessary adjustments. • Keep in mind market volatility doesn't follow a schedule—you might find yourself rebalancing after a calm period during which not much has changed or waiting too long to address a particularly volatile market.
Tolerance Band Rebalancing	• This involves committing to making adjustments every time an asset rises or falls outside of a limit, or tolerance band, you establish—for example, a change of 5% in either direction. • Requires more diligent monitoring of the portfolio and greater adherence to discipline. • During volatile markets, the tolerance band method can be more expensive than periodic rebalancing because you could be buying and selling more frequently and potentially incurring more in trading costs.
Dollar-cost Averaging	• This involves investing a fixed dollar amount on a regular basis, thus accumulating assets without trying to time a market entry point.
Portfolio "Drift"	• Involves setting the right strategic asset allocation target and rather than rebalancing, allowing the portfolio to naturally "drift." • Process is considered easy to execute and helps remove timing decisions.

Asset allocation and diversification do not ensure a profit or protect against loss in declining markets. Keep in mind that dollar cost averaging cannot guarantee a profit or prevent a loss. Since such an investment plan involves continual investment in securities regardless of fluctuating price levels, you should consider your willingness to continue purchasing during periods of high or low price levels.

It is important to keep in mind that rebalancing should be viewed as a process, not a single-point-in-time exercise or an attempt to pick a market bottom. Also, as investing goals and time horizons change due to life events, you can work with your portfolio manager to adjust your target asset allocation and DCA practices, as appropriate.

Combination strategies. During periods of heightened volatility, a combination of rebalancing and DCA is worth considering. For example, if a portfolio experiences significant "drift" due to rapidly changing market conditions, employing rebalancing and DCA techniques may help with re-risking, as well as with navigating through a bottoming process (i.e as a bridge through the valley). As we have indicated, bottoming processes in markets take time and require, in our view, a period of assessment as new information and insight is realized and developed. Some more tactical investors may want to consider utilizing a combination strategy that includes an examination of volatility in the capital markets, the nature of the current business cycle, what the markets may or may not be discounting, and the prospects for a potential recovery in the broader economy. A combination strategy, in our opinion, should still maintain discipline, diversification characteristics, and components that are consistent with your overall risk profile and objectives.

CONCLUSION

At this point in the cycle, sift through the noise and identify the improvement factors. While every economic cycle and market dislocation is unique, equity markets over the medium term tend to be driven by underlying fundamentals including economic activity, corporate earnings, inflation, monetary and fiscal policy, and the level of interest rates. Headline noise or sentiment-driven market volatility tend to steer the market only in the short term and may not fully reveal the pillars driving the market forward over the longer term.

Given the "borderless" walls of finance, the perpetual changes in the investment landscape, and the potential for periods of extreme volatility to occur without notice, we believe it is important for investors to be prepared well ahead of the development of a potential "valley," so as you work through the bridge period to the other side, you can potentially take advantage of the opportunities that unfold over time.

To recap, although geopolitical events and market volatility are beyond our control, there are steps that investors can take to weather periods of turbulence:

- Develop a goals-based plan and stay invested
- Maintain a well-diversified portfolio and adequate liquidity
- Adjust and rebalance your portfolio to align with your target asset allocation and goals

Your portfolio manager can help guide you through these steps and the "all-season" resources of the Chief Investment Office that can be utilized to keep you on track.

Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Indexes are all based in dollars.

Cash: IA SBBI US 30 Day TBill TR USD & BofA U.S. Treasury Bills 3 months is the source from 1926 to 1976. Each month a one-bill portfolio containing the shortest-term bill having not less than one month to maturity is constructed. (The bill's original term to maturity is not relevant). The ICE BofA Global Research US 3-Month Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date.

Emerging Markets: MSCI Daily TR Net EM USD captures large and mid cap representation across 23 Emerging Markets countries and targets coverage of approximately 85% of the free float adjusted market capitalization in each country.

International Fixed Income: ICE BofA Global Broad Market TR ex USD (Hedged) tracks the performance of investment grade debt publicly issued in the major domestic and eurobond markets, including sovereign, quasi-government, corporate, securitized and collateralized securities, excluding all securities denominated in US dollars.

International Developed: MSCI World ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries*—excluding the United States.

USD High Yield Fixed Income: ICE BofA High Yield Cash Pay tracks the performance of US dollar denominated below investment grade corporate debt, currently in a coupon paying period, that is publicly issued in the US domestic market.

Private Equity: Cambridge Associates U.S. Private Equity Index is based on return data compiled for private equity funds (including buyout, growth equity and mezzanine funds) that represent the majority of institutional capital raised by private equity partnerships formed since 1986.

Hedge Fund: HFRI Equity Hedge (Total) Index maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. EH managers would typically maintain at least 50% exposure to, and may in some cases be entirely invested in, equities, both long and short.

Chicago Board Options Exchange's (CBOE) Volatility Index (VIX), a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

Real Estate/Real Estate Investment Trusts: NCREIF/NARIET U.S. Real Estate: The NCREIF US Real Estate Index is a quarterly time series composite return measure of investment performance of a large pool of US Real Estate properties.

S&P 500 Total Return Index measures the performance of a strategy representing a total return swap on the S&P 500® with gross dividends reinvested.

Bloomberg Barclays Investment Grade Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes U.S. dollar-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers. The U.S. Corporate Index is a component of the U.S. Credit and U.S. Aggregate Indices.

US Large Cap: Russell 1000 Growth Total Return measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

US Mid Cap: Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index.

Russell 1000 Value Total Return measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

Small Cap: Russell Small Cap Completeness Index measures the performance of the companies in the Russell 3000 Index excluding the companies in the S&P 500.

Tangible: NCREIF Farmland: The NCREIF Farmland Index is a quarterly time series composite return measure of investment performance of a large pool of individual farmland properties acquired in the private market for investment purposes only.

Tangible: NCREIF Timberland: The NCREIF Timberland Index is a quarterly time series composite return measure of investment performance of a large pool of individual timber properties acquired in the private market for investment purposes only.

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Keep in mind that dollar cost averaging cannot guarantee a profit or prevent a loss. Since such an investment plan involves continual investment in securities regardless of fluctuating price levels, you should consider your willingness to continue purchasing during periods of high or low price levels.

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